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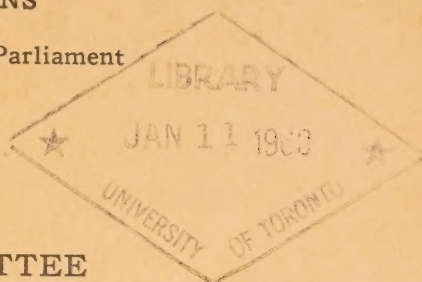
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HOUSE OF COMMONS

First Session—Twenty-fifth Parliament

1962



STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

TUESDAY, DECEMBER 4, 1962
THURSDAY, DECEMBER 13, 1962

Public Accounts, Volumes I, II and III (1961)

WITNESSES:

Mr. K. Taylor, Deputy Minister, Department of Finance; Mr. G. Steele, Assistant Deputy Minister of the Department of Finance and Secretary of the Treasury Board; Mr. H. R. Balls, Comptroller of the Treasury; Mr. M. Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General, and Messrs. B. A. Millar, G. R. Long, J. M. Laroche, D. A. Smith and J. R. Douglas of the Auditor General's office; and Mr. James C. Thompson, Project Director, Financial Management in the Government of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1963

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton

Vice-Chairman: Mr. Lloyd R. Crouse
and Messrs.

Asselin,	Gauthier,	Muir (<i>Lisgar</i>),
Beaulé,	Godin,	Noble,
Benson,	Gray,	Olson,
Cadieux (<i>Terrebonne</i>),	Hales,	Perron,
Cameron (<i>Nanaimo-</i> <i>Cowichan-The Islands</i>),	Hellyer,	Pigeon,
Caron,	Honey,	Pugh,
Chaplin,	Horner (<i>Jasper-Edson</i>)	Rapp,
Cowan,	Lessard (<i>Saint-Henri</i>),	Rochon,
Davis,	Létourneau,	Rondeau,
Drury,	Lewis,	Scott,
Dubé,	Macdonald (Mrs.),	Skoreyko,
Dupuis,	Macdonald (<i>Rosedale</i>),	Smith (<i>Simcoe North</i>),
Fleming (<i>Okanagan-</i> <i>Revelstoke</i>),	MacRae,	Stefanson,
Forbes,	McCleave,	Teillet,
Frenette,	McGee,	Tucker,
	McGrath,	Winch—50.
	Moore,	

(Quorum—10)

R. L. Boivin,
Clerk of the Committee.

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ORDERS OF REFERENCE

HOUSE OF COMMONS,

FRIDAY, October 26, 1962.

Resolved,—That the following Members do compose the Standing Committee on Public Accounts:

Messrs.

Asselin,	Frenette,	Moore,
Beaulé,	Gauthier,	Muir (<i>Lisgar</i>),
Benson,	Godin,	Noble,
Cadieux (<i>Terrebonne</i>),	Gray,	Olson,
Cameron (<i>Nanaimo-</i>	Hales,	Perron,
<i>Cowichan-The</i>	Hellyer,	Pigeon,
<i>Islands</i>),	Honey,	Pugh,
Caron,	Horner (<i>Jasper-Edson</i>),	Rapp,
Chaplin,	Lessard (<i>Saint-Henri</i>),	Rochon,
Cowan,	Létourneau,	Rondeau,
Crouse,	Lewis,	Scott,
Davis,	Macdonald (Mrs.),	Skoreyko,
Drury,	Macdonald (<i>Rosedale</i>),	Smith (<i>Simcoe North</i>),
Dubé,	Macnaughton,	Stefanson,
Dupuis,	MacRae,	Teillet,
Fleming (<i>Okanagan-</i>	McCleave,	Tucker,
<i>Revelstoke</i>),	McGee,	Winch—50.
Forbes,	McGrath,	

(Quorum 15)

Ordered,—That the said Committee be empowered to examine and inquire into all such matters and things as may be referred to it by the House; and to report from time to time its observations and opinions thereon, with power to send for persons, papers and records.

TUESDAY, December 4, 1962.

Ordered,—That the Standing Committee on Public Accounts be empowered to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto; and that its quorum be reduced from 15 to 10 Members, and that Standing Order 65(1)(e) be suspended in relation thereto.

WEDNESDAY, December 12, 1962.

Ordered,—That the Reports of the Canada Council for the fiscal years ended March 31, 1961 and March 31, 1962, laid before the House on July 1, 1961 and October 10, 1962 respectively, be referred to the Standing Committee on Public Accounts in order to provide for a review thereof pursuant to section 23 of the Canada Council Act.

Ordered,—That the Public Accounts, Volumes I, II, and III, and the Report of the Auditor General for the fiscal year ended March 31, 1961, and the financial statements of the Canada Council for the fiscal years ended March 31, 1961 and 1962, and the Reports of the Auditor General thereon, be referred to the Standing Committee on Public Accounts.

Attest.

Léon-J. Raymond,
Clerk of the House.

REPORT TO THE HOUSE

TUESDAY, December 4, 1962.

The Standing Committee on Public Accounts has the honour to present its

FIRST REPORT

Your Committee recommends:

1. That it be empowered to print such papers and evidence as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto;
2. That its quorum be reduced from 15 to 10 members and that Standing Order 65(1)(e) be suspended in relation thereto.

Respectfully submitted,

ALAN MACNAUGHTON,
Chairman.

(The said Report was concurred in by the House this day.)

MINUTES OF PROCEEDINGS

TUESDAY, December 4, 1962.

(1)

The Standing Committee on Public Accounts met this day at 9.35 oclock a.m. for Organization purposes.

Members present: Messrs. Asselin, Beaulé, Cadieux (*Terrebonne*), Caron, Cowan, Crouse, Drury, Dubé, Dupuis, Fleming (*Okanagan-Revelstoke*), Forbes, Hales, Lessard (*Saint-Henri*), Létourneau, Lewis, Macdonald (*Rosedale*), Macnaughton, McGee, McGrath, Moore (*Wetaskiwin*), Muir (*Lisgar*), Noble, Peron, Pigeon, Rapp, Smith (*Simcoe North*), Stefanson, Winch—(28).

The Clerk of the Committee attended the election of the Chairman.

Moved by Mr. Hales, seconded by Mr. Asselin,

That Mr. Alan Macnaughton do take the Chair of this Committee as Chairman.

On motion of Mr. Winch, seconded by Mr. Lessard, nominations were closed.

Mr. Alan Macnaughton was declared duly elected Chairman. He took the Chair and thanked the Committee for the honour conferred upon him.

Mr. Muir (*Lisgar*) moved, seconded by Mr. Smith (*Simcoe North*),

That Mr. L. Crouse be Vice-Chairman of this Committee.

Adopted unanimously.

The Clerk read the Order of Reference.

On motion of Mr. Caron, seconded by Mr. Smith (*Simcoe North*),

Resolved,—That the Chairman seek authority from the House to print such papers and documents as the Committee may order.

On motion of Mr. Winch, seconded by Mr. Beaulé,

Resolved,—That the Committee print 700 copies in English and 300 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Smith (*Simcoe North*), seconded by Mr. Caron,

Resolved,—That the Committee recommend that its quorum be reduced from 15 members to 10 members.

On motion of Mr. Caron, seconded by Mr. Muir (*Lisgar*),

Resolved,—That a Subcommittee on Agenda and Procedure, comprising the Chairman and six members to be designated by him, be appointed.

The Committee agreed to defer until later the seeking of the required authority to sit while the House is sitting.

On motion of Mr. Beaulé, seconded by Mr. Létourneau, the Committee adjourned to the call of the Chair at 9.50 oclock a.m.

THURSDAY, December 13, 1962.

(2)

The Standing Committee on Public Accounts met this day at 10.05 o'clock a.m. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Cadieux (*Terrebonne*), Caron, Chaplin, Cowan, Crouse, Drury, Dube, Fleming (*Okanagan-Revelstoke*), Forbes, Gray, Honey, Lessard (*Saint-Henri*), Letourneau, Macdonald (*Rosedale*), Macnaughton, McCleave, McGee, McGrath, Moose (*Westaskiwin*), Muir (*Lisgar*), Olson, Pugh, Rapp, Rondeau, Scott, Stefanson, Tucker, Winch—(28).

In attendance: Mr. K. Taylor, Deputy Minister, Department of Finance; Mr. G. Steele, Assistant Deputy Minister of the Department of Finance and Secretary of the Treasury Board; Mr. H. R. Balls, Comptroller of the Treasury; Mr. M. Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General, and Messrs. B. A. Millar, G. R. Long, J. M. Laroche, D. A. Smith and J. R. Douglas of the Auditor General's office; and Mr. James C. Thompson, Project Director, Financial Management in the Government of Canada.

The Chairman opened the meeting and welcomed the old and the new members, as well as the new members of the staff. He stressed the tremendous task accomplished by the Committee in the past four years and expressed the hope that the deliberations would once again be characterized by the co-operation and understanding shown in the past. The Chairman welcomed the French speaking members in French and indicated that all the facilities had been provided for in order that the business of the Committee could be carried out in either of the two official languages.

The Clerk of the Committee read the Orders of Reference.

The Chairman then announced the composition of the Subcommittee on Agenda and Procedure, which is as follows: Chairman, Mr. Alan Macnaughton; Vice-Chairman, Mr. Lloyd R. Crouse; Members: Messrs. G. Muir, H. Smith, L. Cadieux, D. S. Macdonald, H. Olson and H. Winch.

The oral report of the Subcommittee on Agenda and Procedure was then presented by the Chairman, who reported that the Subcommittee had met on Wednesday, December 5, 1962, and agreed to recommend that the Committee hold one meeting prior to the Christmas adjournment in order to hear statements from various witnesses.

The Chairman introduced the first witness, Mr. K. Taylor, Deputy Minister, Department of Finance, who explained to the Committee some of the aspects of the operation of his department.

The witness was thanked and discharged by the Chairman, who called Mr. G. Steele, Assistant Deputy Minister of the Department of Finance and Secretary of the Treasury Board, who briefed the Committee on the operation of the Treasury Board and dealt with certain findings of the Royal Commission on Government Organization.

Having thanked the witness, the Chairman introduced Mr. H. R. Balls, Comptroller of the Treasury, who explained to the Committee the organization of this office.

The Chairman thanked the witness and called Mr. H. Henderson, Auditor General of Canada, who dealt with the functions of his office and commented on the assistance given by his office to the Royal Commission on Government Organization.

The Committee agreed to have distributed to its members and printed as part of the Minutes of Proceedings and Evidence of its next meeting a progress report, to be submitted by the Auditor General, on the implementation of the recommendations of the Committee's 1961 Report.

Mr. Henderson then introduced to the Committee Mr. Ian Stevenson, Assistant Auditor General, who dealt with some aspects of the functions of his office, and Messrs. B. A. Miller, G. R. Long, J. M. Laroche, D. J. Smith, and J. R. Douglas, who commented on the operation of their respective branches.

The witnesses were thanked and discharged by the Chairman, who introduced Mr. J. C. Thompson, F.C.A., Project Director, financial management in the Government of Canada (Glassco Report), who presented a statement to the Committee and commented upon it.

The Committee agreed to reprint as an Appendix (*See Appendix A*) to today's Minutes of Proceedings and Evidence, the statement made by Mr. James C. Thompson, F.C.A., before the Committee.

The Chairman thanked and discharged the witness.

Mr. H. Winch expressed the gratitude of the Committee for the most helpful co-operation extended by each of the witnesses.

The Committee agreed to have issue No. 1 of its Minutes of Proceedings and Evidence delivered to the members at their home address should they become available for distribution during the Christmas adjournment.

The Chairman indicated that the Subcommittee on Agenda and Procedure would meet early in the New Year in order to draw up a detailed agenda for the approval of the Committee.

At 11.45 o'clock a.m. the Committee adjourned to the call of the Chair.

R. L. Boivin,
Clerk of the Committee.

EVIDENCE

THURSDAY, December 13, 1962.

The CHAIRMAN: Gentlemen, considering the shortness of notice we certainly have a very good turnout. The reason for the short notice was that we were not legally constituted, so to speak, until the order of reference had been passed. That was passed yesterday afternoon at 2.30.

I think our secretary is to be congratulated on the speed with which he got the notice out as well as the rather complex agenda.

We have more than a quorum present.

I would like at this time to welcome the new members to this committee particularly and, of course, the old members who are old friends in a cooperative way.

Perhaps I could just say a few words of welcome in French.

Le PRÉSIDENT: Il me fait plaisir de saluer les membres de langue française de ce comité. J'estime qu'ils n'hésiteront pas à s'exprimer dans leur langue s'ils le désirent, et ce serait peut-être un devoir pour eux de le faire. Le comité a à son service des sténographes des deux langues et des interprètes, et il n'appartient qu'aux membres de s'exprimer dans l'une ou dans l'autre des deux langues officielles.

The CHAIRMAN: I would ask the clerk at this time to read the order of reference.

The CLERK: The order of reference dated Tuesday, December 4, 1962 reads as follows:

—That the standing committee on Public Accounts—be empowered to print such papers and evidence as may be ordered by the committee, and that standing order 66 be suspended in relation thereto.

The order of reference dated December 12, 1962 reads as follows:

That the reports of the Canada Council for the fiscal years ended March 31, 1961 and March 31, 1962, laid before the House on July 1, 1961 and October 10, 1962 respectively, be referred to the standing committee on public accounts in order to provide for a review thereof pursuant to section 23 of the Canada Council Act.

That the Public Accounts, volumes I, II, and III, and the report of the Auditor General for the fiscal year ended March 31, 1961, and the financial statements of the Canada Council for the fiscal years ended March 31, 1961 and 1962, and the reports of the Auditor General thereon, be referred to the standing committee on public accounts.

It is signed by the clerk of the House.

The CHAIRMAN: Do members wish this translated? It does appear in the French Hansard.

Some hon. MEMBERS: Yes.

L'INTERPRÈTE: Il est ordonné que le comité permanent des comptes publics soit autorisé à faire imprimer les documents et témoignages dont il ordonnera la publication, et qu'à cet égard soit suspendue l'application de l'article 66 du Règlement; que son quorum soit réduit de 15 à 10 membres et que l'application de l'article 65 (1)e) du Règlement soit suspendue à cet égard.

Il est ordonné que les rapports du Conseil des Arts du Canada, pour les années financières terminées le 31 mars 1961 et le 31 mars 1962, qui ont été déposés à la Chambre le 1^{er} juillet 1961 et le 10 octobre 1962, respectivement, soient déferés au comité permanent des comptes publics afin qu'ils fassent l'objet d'un examen, suivant l'article 23 de la loi sur le Conseil des Arts du Canada.

Il est ordonné que les Comptes publics (volumes I, II et III), ainsi que le rapport de l'auditeur général pour l'année financière close le 31 mars 1961, et que les relevés financiers du Conseil des Arts du Canada, pour les années financières terminées le 31 mars 1961 et 1962, ainsi que le rapport de l'auditeur général y relatif, soient déferés au comité permanent des Comptes publics.

THE CHAIRMAN: At this time I should like to announce the names of the members of the subcommittee on agenda and procedure. You will recall that you authorized the Chair to make these appointments. Of course, according to custom and tradition, the Chairman naturally gets in touch with either the leader or the whip of the different parties before doing so.

The following members constitute the steering committee. As well as the Chairman and Vice Chairman, Mr. Crouse, who is on my left, the members are; George Muir, Heber Smith, Leo Cadieux, D. S. Macdonald, Horace Olson and Harold Winch.

If I may at this time I should like to give you a short verbal report of the subcommittee on agenda and procedure. We met on Wednesday, December 5, 1962, and we decided to suggest to you that we have only one meeting before Christmas for obvious reasons and that this meeting take the form of an orientation meeting with the hope that we could ask some very qualified individuals to appear and explain some of their activities to us, so that the new members particularly would have a better understanding of what are our problems and objectives. I had hoped that this report would be found acceptable by you. Is there any objection to it? I may say that we anticipated approval perhaps too quickly and did ask some well qualified individuals to come here this morning. I hope this is satisfactory to you.

May I at this time introduce our new clerk of committees. He is Mr. Reginald Boivin. Mr. Boivin is our new clerk this year.

Our translation staff is made up of two interpreters, Mr. Gates and Mr. Plante.

At this time may I suggest to the committee that members are entitled to receive copies of these reports. These are our basic text books, so to speak, and I refer to volumes I, II and III of the Public Accounts of Canada for the fiscal year ended March 31, 1961. I understand that these reports have been given to you directly but if you have not received them you can get them on request at the distribution office.

You should also have the fourth annual report of the Canada Council for 1960-1961, as well as the report of the Canada Council for 1961-1962. Last but not least you should have the report of the Auditor General to the House of Commons for the year ended March 31, 1961. That is perhaps our basic bible.

I might say in passing that if you do not have copies of the Glassco report, volumes I and II, you can acquire copies from the queen's printer. I might state that the work of the Glassco commission will be described later on. It certainly is of great interest to the members of this committee.

I see an item on the agenda called "remarks of the chairman". I would like to impose on your good will for just a few minutes because I think it is important to lay the ground work of this committee in view of the fact that we have so many new members.

At this time I should like to make a few remarks on how the committee was set up originally, and what we have been trying to do for the last four years.

The Prime Minister, speaking in the House on Tuesday May 13, 1958, as reported in *Hansard*, particularly at pages 32, 33 and 34 had this to say. At page 33 he said:

I believe that the Public Accounts Committee should be modelled after the British Committee.

At page 34 he said:

We are going to welcome the cooperation of the opposition in the discharge of their responsibilities in these committees.

The Prime Minister said further in regard to the Public Accounts Committee as reported at page 34:

I am now asking that this committee be made effective—

The Prime Minister further stated:

I want to see that an effective committee is formed and not just a body set up for decorative purposes.

The Prime Minister then referred to Beauchesne's Parliamentary Rules and Forms at page 212. The quotation is short but it is effective. It is as follows:

The Public Accounts Committee designed in the United Kingdom House, to guarantee financial regularity and audit, exercises great influence over the departments; yet it possesses no direct power other than the power to call for documents and to require witnesses to attend. Its power is indirect and lies nominally in the potential results of its reports. Actually its power lies in the publicity which it is able to give to the questions it investigates, and in the moral effect on departments of its criticism.

Gentlemen, since 1958 the Public Accounts Committee has submitted four reports to parliament. Of these four reports three were unanimous. That is to say in spite of the different views of many members on the committee, and in spite of the different parties represented on this committee, we all pooled our efforts and produced three unanimous reports out of four.

I believe that this committee, under its new set-up, has done useful work and has brought a new approach to the examination of the biggest business in Canada, a business amounting in public expenditures to over \$7 billion per year.

There is no need to go into the many recommendations made by this committee, but I should like to point out that it was the first to suggest that the crown corporations, in the Canadian taxpayers have a tremendous investment, should be subject to scrutiny. In fact, the committee has examined three of them, namely, Crown Assets Disposal Corporation, Exports Credits Insurance, and the Polymer Corporation. I hope that the committee this year will continue to examine other crown corporations.

Last year this committee put the finger on the unemployment insurance fund. A great deal of what you have heard in regard to this fund since that time is a direct result of the work of this committee.

We also investigated and suggested revisions in the form of public accounts, and those revisions have been carried out in the three volumes that we have here today.

Even the Auditor General has not escaped our attention in that we started a system of asking him for follow-up reports in respect of what happened to the various suggestions of this committee. It is now established practice that follow-up reports are made regularly each year. We even took a look at the Auditor General's office set-up.

These examples are enough to show the wide ranging character of our investigations. Certain ground rules have developed from this experience and I would like to mention only three.

One, the Chairman, who is a member of the official opposition, should at all times endeavour to be absolutely fair and impartial.

Two, witnesses called before the committee, whether they be ministers, deputy ministers, experts, civil servants, or members of the public, should be treated with respect and consideration.

In the past few years this committee has not indulged in McCarthy-like tactics, and I hope it never will.

Three, if this committee is to serve the purpose for which it was set up, our members must be hard working, at all times cooperative, and endeavour to keep their party affiliations under control in the general interest of the country.

Gentlemen, we have a real job to do on behalf of the Canadian taxpayer, and I ask for your full cooperation.

I should like to just add a few words in French.

Le PRÉSIDENT: Notre comité est très important du fait qu'il considère toutes les dépenses du gouvernement. Il offre à l'auditeur général une occasion unique de présenter ses vues sur ces dépenses.

Depuis quatre ans, notre comité a travaillé ferme, comme une équipe où chaque membre apportait son entière collaboration sans tenir compte des différents partis politiques. Il a toujours su placer les intérêts de l'État au-dessus des intérêts particuliers.

Je suis convaincu qu'il continuera d'en être ainsi et que le comité aura, encore cette année, un souci extrême d'être juste envers les témoins, dont la tâche est extrêmement difficile.

M. ALEXIS CARON: Tous ces rapports-là sont à notre disposition?

Le PRÉSIDENT: Oui.

The CHAIRMAN: Gentlemen, at this time I should like to introduce the first distinguished witness of a series of prominent individuals here this morning, and he is Mr. Ken Taylor who is, as we all know, the deputy minister of finance and receiver general of Canada. In fact, he is so well known just a few words of introduction I am sure will not be considered inappropriate.

He is a graduate and professor of McMaster University and was at one time secretary of the wartime prices and trade board, writer on economic subjects for many years, secretary and advisor to many government delegations and a more or less constant attendant at imperial conferences. Ken Taylor has carried a very heavy load for many years as deputy minister of finance. We asked him here this morning in the hope that he would just make a few remarks about his job, his duties and the objectives of his department.

Mr. K. W. TAYLOR (*Deputy Minister of the Department of Finance*): Mr. Chairman, I am not accustomed to getting so much applause. You have suggested, sir, that certain senior officials should explain to the committee briefly and in general terms the role and functions of the finance department, with particular reference to those aspects of the department which come before this committee for examination and report. I shall describe very briefly the general role and functions of the Department of Finance and, if you are agreeable, sir, I will ask Mr. Steele, assistant deputy minister of the Department of Finance and secretary of the treasury board, to outline briefly the operations of the treasury board, and Mr. Balls who is comptroller of the treasury, to describe briefly the functions of his office.

As I think you all know, the main responsibilities of the Minister of Finance are related to financial, fiscal and budgetary policies. He also has considerable responsibilities in the area of broad economic policies, both international and domestic. He also has some operational responsibilities, but these are relatively minor compared with the large operating departments such as the Department of Transport, the Post Office, public works and so on.

I will start with the Department of Finance which numbers about 500 people. They control the treasury which services all government departments right across the country and has a staff of 4,500 people. The departments of organization is divided into several divisions. We have the taxation division, of course; we have a treasury board division with the staff of the treasury board. We also have a division on financial affairs, both domestic and international, and a division on economic affairs, both domestic and international, and such operations as the Royal Canadian Mint and the inspector general of banks. The Minister of Finance also has a number of areas or divisions or departments that report to him but are not part of the Department of Finance, that is they are not under my jurisdiction but they do report to the Minister of Finance; in particular there is the department of insurance, the tariff board, the Bank of Canada, and purely on the administrative side, the Auditor General's department.

In the operating divisions the Minister of Finance is responsible for administering a number of statutes, the farm improvement loans, the veterans' business and professional loans, small business loans, the Royal Canadian Mint, the public service superannuation, the dominion provincial fiscal relations, tax collection agreements, and so on. There are also grants to municipalities in lieu of taxes on federally owned real estate, as well as some others. Broadly speaking, the Department of Finance is not a large operating department. It is primarily a department whose senior officials study, make reports and tender advice on financial, fiscal, budgetary and related policies.

In the financial and fiscal area a very important role of the Minister of Finance is related to tax legislation, revenue legislation. I am sure you all know the Minister of Finance is responsible not for the administration of these acts but for tax legislation, and the administration of the tax statutes is under the Department of National Revenue which is the operating and collecting division of the department.

In the field of government expenditures, the Minister of Finance has a major role in that he is by statute the chairman of the treasury board, and the staff of the treasury board are in the Department of Finance. The Minister of Finance is also responsible for debt management, bond issues, the operation of the exchange fund, the purchase fund, and so on. In this area the Bank of Canada is the agent of Her Majesty in reporting to the Minister of Finance, and it operates largely the management of the public debt, bond issues, and so on. It operates the management of the foreign exchange fund, and so on.

The field of budgetary policy is both a financial matter and a matter of economic policy. If we go back 50 or 70 years ago, we find that government expenditure in almost all countries with which we are familiar was relatively small. That is true of Canada as well. Expenditures at that time amounted to 3 per cent or 4 per cent, or at the most 5 per cent of what we call the gross national product. Under those conditions, budgetary policy did not have a major economic effect on the country. Now, in most countries with which we are familiar, in North America, western Europe and so on, government expenditures run from anywhere between 15 to 25 per cent of the gross national product.

In Canada, of course, it includes federal expenditures which are 16 or 18 per cent of the gross national product. If you have provincial or municipal expenditures added to that, it comes up to 25 per cent. Where government operations are such that they are collecting and spending between $\frac{1}{4}$ th and $\frac{1}{2}$ of the gross national income or gross national product, obviously government policies in the budgetary area are of the highest economic importance.

Finally, I will refer very briefly, Mr. Chairman, to the document to which you have referred, in relation to the matter of public accounts. The Minister publishes in the *Canada Gazette* each month a financial statement on budgetary

revenues and expenditures and also on cash inflows and outflows. These statements usually appear at the end of the third week of the month, for instance, at the end of the October issue published in the *Canada Gazette* about November 20th. Annually he presents to parliament the annual public accounts for the preceding fiscal year.

As you have said, Mr. Chairman, we now put it out in the form of three volumes. The first volume is a general summary in review. We try to explain in rather plain and non-technical language, the tables and charts and the whole field of government operations for the past year. That covers about 80 or 90 pages. Also, in volume 1, we attach all the main statistical tables, which adds another 100 pages or so to volume 1. Volume 2, which is very thick and rather heavy, runs to a thousand pages. It is a detailed account of the expenditures, revenues and operations of the financial side of every government department and agency. Volume 3 contains a financial statement of all crown corporations together with the Auditor General's certificates. These public accounts are prepared by the officials of the Department of Finance. They are submitted to the Minister of Finance in the form of documents signed by the deputy minister. I think I should add that all the detailed work of preparing these volumes—at least volumes 1 and 2—is done by the comptroller of the treasury and his officials.

I think that is enough for the present time to explain the general role of the Department of Finance. Would you agree to hearing Mr. Steele and Mr. Balls?

THE CHAIRMAN: Mr. Taylor, thank you very much on behalf of the committee.

By way of introducing Mr. Steele, may I say that he is a well qualified economist and political scientist from the university of Toronto. He is also a graduate of the London School of Economics. He is at present assistant deputy minister of finance and has been such since 1960. He is also secretary of the treasury board.

MR. D. STEELE, (*Assistant Deputy Minister of the Department of Finance and Secretary of the Treasury Board*): Thank you, Mr. Chairman. First of all, may I add my own thanks to those of the deputy minister for the opportunity to appear. We hope that as you get into some of the agenda items which affect particularly the areas of the responsibility of the treasury board, that you will have a chance to return at a later date and perhaps to seek some views from us on some of these matters.

First of all I think I would like to ask the indulgence of the committee for not having prepared too carefully the remarks which I would like to put to you. I can only plead that at this time of the year the treasury board and the staff of the board are very heavily engaged in reviewing the government expenditure intentions for the new year. We are right in the middle of this now. This is something which consumes most of the energy and time of the staff. I have this strange dual role of being assistant deputy minister of the department and secretary of the duly constituted statutory committee of ministers of the treasury board. As the deputy minister indicated, the chairman of this board is the Minister of Finance. I am sure that the most of you are aware that in the Financial Administration Act the actual words read that the chairman shall be the minister of finance and that there shall be five other members of the queen's privy council for Canada appointed to serve as the committee of the treasury. In addition, of course, and going back quite a number of years, it has always been the practice of the government of the day to name alternate members to the board, usually three in number, so that a full complement of the board usually consists of six regular and three alternate members. This is the present total which we have in this capacity.

Of course, the most important function of the treasury board is that which is stated in the Financial Administration Act. I am only paraphrasing the exact wording. It is the formulation and review of expenditure policy to the government, and associated with this, of course, is the control over the establishment or the requirements of the various departments of government for staff, and indeed, the various conditions of service under which these people carry out their work. These two aspects of the work of the treasury board—the review and formulation of expenditure policy and the promulgation of the various regulations in the financial field—constitute what I call the core of the treasury board work.

In recent years, it has been the responsibility of the Minister of Finance—in connection with crown agency budgets—and you are aware that the statutes which establish these various crown agencies require that they submit annually to parliament capital budgets, and, in some cases, operating budgets—to concur in these budgets with the responsible minister. Therefore, the Minister of Finance has the responsibility to review the spending intentions of the various crown agencies, and it has been the treasury board within the Department of Finance which has in effect been the advisory agency within the department for reviewing these budgets. With certain exceptions this is an accurate statement of the present situation.

The royal commission report commented on the work of the board. I would not disagree with any of the basic and factual information there about the extent to which the treasury board has been burdened down in recent years with the question of reviewing great masses of submissions to the board. I would say this about the work of the board and its staff, that it is a constant concern of the staff and the ministers to attempt as much as possible to get our general regulations within which most of the departments may operate and to cut down somewhat on the flow of week to week work.

Before I go back to the annual review of the estimates, I should just note that as an operating fact the board meets weekly to discharge its responsibilities, and the preparation of the agenda for this meeting is my responsibility. It would be quite normal for a meeting to run for perhaps two hours or so to deal with the business at hand.

In the general area of regulations, I noted down here the travel and removal regulations concerned with foreign service allowances and allowances of all types as they relate to people, post allowances for instance, the general contract regulations which are established under the Financial Administration Act, control over the publications' policy, control over government forms and their utilization, a concern with office equipment and office furniture standards. These are the general regulations which over the years the board has brought out. I might note the growing importance of the application of computer techniques and automatic data processing to the general operations of the government.

This is indeed a very complicated area affecting the inter-relationship between people and systems in the various departments. There is an inter-departmental committee which the treasury board set up and which is assuming, I think, a growing importance in making judgments about the introduction into our government operation of quite expensive equipment in this field.

As the government expenditure program has grown, so has the elaboration of the control structure. I would just observe that from my point this has had a factor of inevitability about it, and of course this is the substance of the concern of the royal commission on government organization, the report of which the chairman has referred to you for study.

Much of what I would say this morning really turns on the findings of this commission. I think I might state the general conclusions of the royal

commission. From my personal observation, it is an attempt to somehow redress this balance, this tendency for the control at the centre, to bring up and to restore somewhat to the operating departments of government the responsibility in matters which the public accounts committee would wish to consider, and certainly in things for which the treasury board is responsible. I would refer particularly to the close interrelationship between the printed estimates and certainly in things for which the treasury board is responsible. I would refer particularly to the close interrelationship between the printed estimates and the public accounts. The estimates disclose to the house the intentions of the government. The public accounts come before you as an expression of how the government actually spends the money that has been authorized by parliament.

I intended to note, in the things outlined as being achievements of this committee, the fact that you overlooked the approval which was given the report of the last public accounts committee, or a recent report of the committee, to the house in respect of the breakdown of the estimates. We had put before a previous committee certain improvements in the estimates which we considered to be technical improvements, such as the cutting down of some of the historical detail in the staff area and bringing the detail section in line with the voted section in the estimates. We had hoped to improve the presentation of these so that as members you would get a better understanding of the intentions of the government.

The recommendations which we as the treasury board staff, and the minister as chairman of the board, are considering arise out of the Glassco commission report, and they do involve some quite fundamental changes in the presentation of these estimates. I would remind the committee that it was in the consideration of the 1950-51 period by the public accounts committee that the form of the estimates as they are now was approved. It is one of the major recommendations of the royal commission that this form of presentation, as it is now, quite clearly has outlived its usefulness and there should be a recasting of the estimates to disclose the actual program and activities of the department. This is a major recommendation of the commission and is one which will have its implications in respect of the accounting system of the government and the presentation of the material in the public accounts at a later date.

The royal commission has made recommendations designed to reduce the number of votes in the estimates. I would recall to the committee that at previous sittings you made special reference to the estimates and suggested that the staff of the Department of Finance and treasury board should prepare a report for this committee of the changes made, and since that time we have been working on this. We hope there will be an opportunity, when you deal with this item, to bring some thoughts before the committee on this matter. There are recommendations in the royal commission report about the way in which the revenue should be presented in the estimates. This involves the use of revenue and the voting by parliament of only the net required. This is also a matter of some significance which we would like to discuss before the committee if there is an opportunity to do so. I think—and I am really in my remarks discussing what is an obvious point—that the recommendations of the royal commission are a major preoccupation of the staff of the treasury board these days.

The Minister of Finance and the government, of course, have indicated that they wish to implement those recommendations of the commission which can be implemented readily and which commend themselves to the government. I think this would be the view of our own minister. I think also I could say quite categorically that as he and previous ministers of finance have indicated, they would only move on some of these matters, particularly related to the way in which information is submitted to parliament, in the knowledge

that these changes commend themselves to this committee. He attaches great significance to the views of the members of this committee on these matters, and so do we. I think that is all I have to say at this time.

The CHAIRMAN: Thank you, Mr. Steele.

The next witness is Mr. Balls who is a graduate of political science and economics of the University of Manitoba and the University of Toronto. Mr. Balls is the comptroller of the treasury. I may say in passing that a subcommittee of this committee worked on—I will not use the word “reforming”—changing the form of the estimates, and they worked very closely with Mr. Balls during the past two years. Their recommendations to some extent have been carried out and were to a considerable degree considered by the Glassco commission.

Mr. H. R. BALLS (*Comptroller of the Treasury*): Thank you very much, Mr. Chairman and gentlemen.

May I say at the outset, Mr. Chairman, that I appreciate your invitation to be present today. I assure you that I shall be very happy indeed to do all that I can to assist you and the members of the committee in your work.

It might be helpful, Mr. Chairman, if I were to describe briefly the functions and organization of my office, particularly as they are of concern to the public accounts committee.

In the first place, the comptroller of the treasury is an executive officer, as Mr. Taylor has pointed out, and an official of the Department of Finance, who has certain statutory functions and responsibilities in regard to the expenditure of public moneys placed on him by virtue of the various provisions of the Financial Administration Act. These functions are essentially fourfold.

In the first place, to control commitments and pre-audit or examine all requisitions for payment before payment is made to ensure that it is in accordance with the governing legislation, appropriation and contract.

Second to control all issues or payments out of the Consolidated Revenue Fund, which is the technical and statutory name for the public treasury.

Third, to maintain accounts and records of all transactions involving the receipt and disbursement of public money.

Fourth, again as Mr. Taylor mentioned, to prepare the public accounts of Canada for submission to the House of Commons and for eventual study by this committee.

For these purposes, my office operates a centralized accounting and disbursement system, which enables us to maintain a complete record of parliamentary appropriations, the commitments against them, and the disbursements chargeable to them. In addition, we provide accounting services and information to departments regarding their financial transactions to assist them in fulfilling their managerial responsibilities.

All payments under appropriations are made under my direction by cheques drawn by treasury officers on the Receiver General of Canada. Under section 31 (3) of the Financial Administration Act, I am directed to reject a requisition if, in my opinion, the payment

- (a) would not be a lawful charge against the appropriation,
- (b) would result in an expenditure in excess of the appropriation, or
- (c) would reduce the balance available in the appropriation so that it would not be sufficient to meet the commitments charged against it.

However, a disallowance or rejection under this provision of the Financial Administration Act may be appealed by a department to the treasury board, which may either sustain or overrule me and order payment to be made.

The pre-audit functions of the office are designed to ensure on behalf of the government that payments are in accordance with the law and that the decisions of parliament, the governor in council, the treasury board and ministers are enforced. The pre-audit is also important from the standpoint

of the independent examinations conducted by the Auditor General on behalf of parliament, as these are usually in the form of a test audit and the degree or percentage of test is normally based on the Auditor General's assessment of the adequacy of the pre-audit conducted by the comptroller of the treasury and his officers.

The staff of the office consists of approximately 4,500 persons, about one-half of whom work in some twenty-six treasury offices attached to departments, boards and commissions in Ottawa. The other half work in some sixty-seven regional and district offices located in the larger cities of Canada, and in offices in London, Washington, Paris and Metz.

To give you some idea of the magnitude and volume of the transactions involved let me cite a few statistics. During the past year, more than 60 million cheques for amounts aggregating between \$9 and \$10 billion were issued by my office. Of these, 30 million were for family allowances, 10 million for old age security pensions, and 5 million for pensions to veterans, the defence services, the Royal Canadian Mounted Police, and retired civil servants, and for government annuities. About 5 million were for salary and wage payments to public servants and nearly 4 million were for refunds of income tax. The remaining 6 or 7 million cheques were issued in payment of accounts for professional services, materials and supplies, and the construction or acquisition, rental, repairs and upkeep of buildings, works and equipment and under various construction, supply and service contracts.

As I have indicated, one of the responsibilities of the office is the preparation of the annual *Public Accounts of Canada* for submission to parliament. The form and content of this document have always been a matter of interest and concern to members of the House of Commons and to members of the public accounts committee in particular, and, from time to time, over the years, the committee has been asked to express its views on the format and content of the public accounts.

As the chairman, Mr. Taylor and Mr. Steele have mentioned, in 1961 the public accounts committee gave some considerable consideration to the subject of the public accounts. Indeed in that year a subcommittee was appointed to review the form and content of the public accounts. This subcommittee consisted of some seven members under the chairmanship of Mr. N. L. Spencer. I am happy to note that two members of this committee, Mr. Smith (*Simcoe North*) and Mr. Winch were members of that subcommittee.

On the basis of the subcommittee's report, the committee in its second report, which was presented to the House of Commons on April 19, 1961, made a number of recommendations, all of which were accepted by the Minister of Finance and are embodied in the *Public Accounts of Canada* for 1960-1961.

I might explain, Mr. Chairman, that previously, the public accounts were presented to parliament in two volumes, one dealing with the accounts of Canada proper, and the other with the accounts of the various crown corporations and the audit reports thereon. The substance of the committee's recommendation was that volume I be divided into two volumes, the first to contain mainly a summary report and financial statements, and the second mainly details of expenditures and revenues of the various departments.

The aim was that volume one would give an effective over-all financial summary on a broad basis; volume two would contain more detailed and specialized information, and volume three would present the financial statement of the crown corporations and the auditor's report.

The royal commission on Government Organization in its report on financial management has made some recommendations in respect of the form of the public accounts. It may be, Mr. Chairman, that this committee may wish

to give further consideration to that matter this session. If this is so, I assure you that I and my officers shall be glad to offer every assistance and cooperation in regard to this and any other matter.

The CHAIRMAN: Thank you Mr. Balls.

Some hon. MEMBERS: Hear, hear.

The CHAIRMAN: I should just like to add another word at this point. Mr. Balls has been very helpful in the past and we appreciate his association with this committee.

The next witness is hardly a witness, but traditionally has been the chief adviser to this committee. He is the Auditor General of Canada, Mr. A. M. Henderson, F.C.A., a man of very considerable business experience before he became Auditor General of Canada some three years ago. Before that time Mr. Watson Sellar was Auditor General of Canada and advised this committee during the first two years of its existence under the new set-up. For the last three years, Mr. Henderson has been our chief adviser and counsel, if I may use that word.

It gives me a great deal of pleasure to introduce, certainly to the new members if that be necessary, Mr. Henderson, Auditor General of Canada.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Thank you very much Mr. Chairman for your kind words of introduction.

May I first of all express my pleasure at meeting with you again today in anticipation of another session, and I hope I am able to render the maximum assistance possible to this committee.

I am, Mr. Chairman, as you have said, your servant. I report only to parliament. I have with me today my senior men whom later I should like to have the privilege of introducing to you and will ask each to say a few words about the various duties for which each is responsible.

M. HENDERSON: A titre d'ancien citoyen de la ville de Montréal et comme membre de l'Institut des comptables agréés du Québec, il me fait grandement plaisir de saluer aujourd'hui les membres du comité permanent des comptes publics qui sont de ma province natale. Ma grand-mère était française, mais malgré cela je dois vous avouer que je ne parle pas cette langue aussi facilement que je voudrais. Si je fais un effort vous serez sans doute assez aimables de me dire que vous avez compris au moins une partie de mes paroles.

Donc, monsieur le président, je m'empresse, à cette occasion, de vous assurer que l'essentiel du courage est certainement la prudence.

Mr. HENDERSON: The public accounts committee in recent years, as the Chairman has said, has had an excellent record which I think everyone will regard as most constructive. The Chairman has referred to some of its accomplishments. I perhaps should point out that the 1961 report, which is the last, and is very interesting reading, was the longest report ever made by this committee. Following 24 meetings, it involved 40 witnesses including 12 deputy ministers from as many departments, five officials from the Canada council, and four of the directors of the Polymer Corporation.

The report was 20 pages long and it had 105 paragraphs about 40 per cent of which contained recommendations or suggestions of one kind or another for action.

I should, with your permission, just like to read two very short paragraphs at the conclusion of this report. Paragraph 104 read:

The importance of maintaining parliamentary control over financial matters is the paramount concern of this committee. It is therefore expected that its recommendations will be given close attention by the departments, crown corporations and other agencies.

The final paragraph, paragraph 105 read:

In accordance with the practice followed by the committee in its reports to the House for the past three years, the Auditor General is again requested to report to the committee on the action taken by the various government departments, crown corporations and other agencies, toward implementing recommendations contained herein.

Mr. Chairman, the progress report that I am required to make pursuant to this direction is now in the course of preparation. Unfortunately I have not been able to produce it for today because we have only now just completed our 1962 report which I shall be handing to the Minister of Finance who will be tabling it in the House of Commons when the house resumes its business after the Christmas recess on January 21.

As I just mentioned, members will no doubt wish to refresh their minds by reading the 1961 report of this committee. However, in case you can not get through the whole thing I should tell you that we are doing our best to summarize the background of each of the 40 odd points which will be contained in the progress report in order that the report will "stand on its own feet" as a document.

If it is agreeable to the committee, Mr. Chairman, I propose mimeographing this and asking the secretary of the committee to distribute it in English and French to the members for study sometime before they return to the House of Commons after the Christmas recess so that each will have the maximum opportunity of reading it quietly before our next meeting.

The CHAIRMAN: Is that agreeable, gentlemen?

Some hon. MEMBERS: Agreed.

Mr. McCLEAVE: Mr. Chairman, our proceedings are to be printed and I am wondering whether this could be made an appendix to our first volume. I do not think there is a great rush to print our first report, so there would be time to make this an appendix to that report.

The CHAIRMAN: Mr. Henderson, would you be agreeable to giving this report to the secretary of the committee for that purpose?

Mr. HENDERSON: Mr. Chairman, I would be happy to do whatever the committee desires. However, I should state that this progress report is usually examined following its tabling and I do think it might usefully form part of the proceedings of the next meeting of this committee. However, this just involves a matter of convenience.

Mr. CARON: Mr. Chairman, I think we should have a separate report so that we can study it separately.

The CHAIRMAN: It seems to be the general wish of committee members to have a separate report; however, it could form part of the next minutes.

Some hon. MEMBERS: Agreed.

Mr. HENDERSON: As Mr. Taylor, Mr. Steele, Mr. Balls have dealt with the functions and the roles of the Department of Finance, the treasury board and the comptroller of the treasury, I will just limit myself to describing the function and role of the Auditor General.

As I mentioned, he is, of course, an officer of parliament as distinct from a part of the government or, that is to say, the executive. His functions and responsibilities are outlined in part VII of the Financial Administration Act.

By law he is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every government department and agency. He is entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties.

Section 67 of the Financial Administration Act requires the Auditor General to examine in such manner as he may deem necessary the accounts relating to the consolidated revenue fund and to public property and shall ascertain whether in his opinion, among other things, money has been expended for the purposes for which it was appropriated by parliament, and the expenditures have been made as authorized.

Section 70 of the Financial Administration Act requires the Auditor General to report annually to the House of Commons the results of his examinations.

Among the matters in respect of which he is specifically required to report in relation to the expenditure of moneys is any case where any appropriation has been exceeded or applied to a purpose or in a manner not authorized by parliament. In addition he is required to report in respect of every case that he considers should be brought to the notice of the House of Commons. He is authorized to station in any department any member of his staff to enable him more effectively to carry out his duties.

I should like to say a word or two about the size of my office. The estimates for my office are currently before parliament and provide for a total staff strength of 179 employees, 180 counting myself. Those are the estimates for the current 1962-63 fiscal year. This is the number of staff I have estimated and so stated in my report last year as necessary to carry out a basic external audit program within the framework of the existing government organization. The actual working staff I have, however, is only 150 compared to 152 on the same date a year ago. This staff shortage of 29 is caused by recruitment difficulties and delays under government recruitment procedures. The shortage has become of serious concern to me because it is handicapping the scope of the work of the audit office.

This matter has been before the committee on previous occasions. May I just say that it is a problem I hope to be able to discuss with this committee during its forthcoming meetings.

You perhaps are wondering about my relationship with the Glassco commission. The terms of reference of the Glassco commission did not include the office of the Auditor General because his is a parliamentary office not an executive one. However, in order to assist the commission in every way possible the audit office cooperated to the fullest extent with its representatives so that they would have a clear idea of the part the audit office plays in financial operations.

Mr. Chairman, I should like at this time to introduce my audit supervisors, each heading a branch as my operations are divided into five branches. Unfortunately owing to the pressure of business Mr. A. B. Stokes, one of my supervisors, could not be present today so I will ask Mr. Ian Stevenson, the assistant auditor general, to mention the scope of Mr. Stokes' office. I may say that Mr. Stevenson is a person who has had a very great amount of experience in the operation of the audit office. He is a chartered accountant and I owe him a great debt of gratitude for the loyalty and devotion he has extended to me as he extended it to Mr. Sellar. Mr. Stevenson is the assistant auditor general. Would you explain Mr. Stokes' office and duties Mr. Stevenson?

Mr. IAN STEVENSON (*Assistant Auditor General*): Mr. Chairman and gentlemen, Mr. Stokes is the audit supervisor in charge of the audit branch which is responsible for the audit of a large group of crown corporations including Atomic Energy of Canada Limited, Canadian Arsenal Limited, the Canadian Broadcasting Corporation, the Canadian Overseas Telecommunication Corporation, Eldorado Mining and Refining Limited, the national harbours board, the Northern Canada Power Commission, Northern Transportation Company Limited, which is a subsidiary of Eldorado, and Polymer Corporation Limited.

Mr. Stokes is also responsible for the audit of several of the government departments including agriculture, external affairs and trade and commerce. He is also responsible for the audit of the accounts of several of the unincorporated departmental operating activities including the Canadian government elevators and the national film board.

Mr. HENDERSON: Thank you, Mr. Stevenson.

I should now like to call upon Mr. B. A. Millar. Mr. Millar is my supervisor in charge of defence activities.

Perhaps you would just explain the operation of your branch, Mr. Millar.

Mr. B. A. MILLAR (*Audit Supervisor—Defence Activities*): Under the present organization of the Auditor General's office national defence, or "C" branch, has the responsibility for auditing most of the government organizations involved in national defence. The first of these, of course, is the Department of National Defence and includes an examination of the accounts for the departmental administration, the inspection services and the accounts of the army, navy and air force, as well as the defence research board and the Department of Defence Production, which has a statutory responsibility for defence supplies and naturally falls under our jurisdiction.

We examine the accounts of that department including departmental administration and various votes under "defence production department".

Mr. HENDERSON: Could you speak just a little louder please?

Mr. MILLAR: I am sorry. In addition to what I have mentioned there are two crown corporations in respect of which we do the audit. The first of these is Defence Construction Limited, which awards and supervises contracts in respect of various defence construction projects.

The second is the Canadian Commercial Corporation which is responsible for the procurement in Canada of defence supplies for other governments particularly the United States. Then there is the Army Benevolent Fund Act which requires that the accounts of the army benevolent fund be audited by the Auditor General, and we carry out that audit on his behalf annually.

In addition we are responsible for the audits for a number of non-public funds and associations such as the air force benevolent fund, the air force central institute fund, the air force association; the navy benevolent fund, and the Canadian army welfare fund. The Auditor General has no statutory responsibility for the audit of these organizations but over many years he has accepted the work as being in the public interest.

Mr. HENDERSON: Thank you, Mr. Millar. Now we have Mr. George Long, who is my supervisor responsible for the revenue departments. I now ask Mr. Long to outline some of the work that is carried on.

Mr. G. R. LONG (*Of the Staff of the Auditor General*): Mr. Chairman, my branch is generally regarded as the revenue audit branch. We cover the department of National Revenue, and the postal department, the two large revenue-producing departments. We also audit the revenue section of some of the other departments such as the patent office and the passport office. We have a number of expenditure departments including the expenditures of the Department of Finance, which includes the central pay office, the superannuation branch, the House of Commons, the civil service commission, the Senate, and the accounts of the chief electoral officer. We have a group of crown corporations, five in number; the Export Credits Insurance Corporation, the Farm Credit Corporation, the national capital commission, the St. Lawrence Seaway authority and the Cornwall International Bridge Corporation.

All of these audits are carried on pretty well on a continuous basis. In addition to that, there are a number of special examinations made on an annual basis usually. These are the exchange fund accounts, the securities and deposits division of the Department of Finance the parliamentary restaurant, and an

annual examination of the store of bullion and coin at the Royal Canadian Mint. This does not include all the items, but we have named what we think are the more important ones. I have with me Mr. Marcel Laroche the officer in charge of our customs and excise audit division, and I would like him to say a word to the committee.

M. MARCEL LAROCHE: Il me fait grandement plaisir d'être parmi vous, aujourd'hui.

The CHAIRMAN: May I ask you one question, Mr. Long? Do you audit the civil service commission?

Mr. LONG: Yes, we audit the civil service commission.

The CHAIRMAN: Thank you.

Mr. HENDERSON: Now I wish to introduce Mr. Douglas Smith.

Mr. DOUGLAS A. SMITH (*Of the Staff of the Auditor General*): Mr. Chairman, the branches which I supervise and for which I am responsible for the audit are the following departments: fisheries, forestry, insurance, justice, mines and technical surveys—including the dominion coal board—the national research council, northern affairs and national resources; public printing and stationery; public works; transport—including the Canadian maritime commission—plus the Royal Canadian Mounted Police.

In addition we have the following other major areas of audit responsibility: the government of the Yukon Territories, the Canada council, Canadian Patents and Development Limited; Crown Assets Disposal Corporation; the custodian of the Northern Ontario Pipelines Crown Corporation; and the Queen Elizabeth the second Canadian fund for aid in research on the diseases of children.

Mr. HENDERSON: Thank you, very much, Mr. Smith. Now finally we have with us Mr. Jack Douglas.

Mr. J. R. DOUGLAS (*Of the Staff of the Auditor General*): Mr. Chairman, my branch deals with the departments which are mainly concerned with the major social welfare programmes. The largest one in terms of expenditure is national health and welfare, which, as you no doubt know, operates the social security programme and the family allowance programme, and what are known as the categorical allowances programmes which are shared in by the federal government but administered by the provinces; these include old age, assistance to the blind, and disabled persons allowances. Then there is the hospitalization programme, the hospitalization insurance and the Diagnostic Services Act.

There is the unemployment assistance programme, and the health grants programme; those are the major ones. Then I have the Department of Veterans Affairs which, of course, deals with the treatment of veterans, and it has associated with it two independent bodies, the war veterans allowance board and the Canadian pension commission. There is also the Veterans Land Act associated with that department. The next one in size is the Department of Labour and the associated unemployment insurance commission, and two of the major problems which the Department of Labour is responsible for, the winter works programme and the vocational training programme.

The Canadian government annuities also come under the Department of Labour, and last of all, citizenship and immigration where, in addition, to their citizenship responsibility, and responsibility under the Immigration Act, they have the Indian affairs branch, and the national gallery which reports to parliament through the Minister of Citizenship and Immigration.

Mr. HENDERSON: Thank you, Mr. Douglas. Now I would like to extend my thanks for the opportunity given to me and to my supervisors to appear before you today and outline in this way the scope of our activities. If there is any

further information which you may want at any time in the future, it will always be a pleasure for us to supply it the best we can. Thank you very much.

The CHAIRMAN: The last witness is by no means the least. In fact we are very honoured indeed to have with us Mr. James C. Thompson, Lieut.-Colonel Thompson, F.C.A., which means an affiliate of the Canadian association of accountants, if I have stated the title properly. And I would like to give you an account of his background previously.

In 1920 he was secretary of the Alberta municipal finances commission; in 1923 to 1936 he was provincial auditor of Alberta and as such he designed and installed a complete modern budgetary and accounting system.

To jump down to 1940-60, he was consulting accountant in various capacities to the governments of Manitoba, Quebec, New Brunswick, and Nova Scotia.

In 1949 he was financial adviser to the Newfoundland delegation appointed to negotiate the terms of union with Canada, and he designed and installed a budgetary and accounting system for Newfoundland.

From 1946 to 1960 he was senior partner in the firm of accountants known as Peat, Marwick Mitchell and Company.

Very recently, during the last year or so, Mr. Thompson has been the project director on financial management for the royal commission on government organization and I feel we are very fortunate in having Mr. Thompson with us this morning.

Mr. JAMES C. THOMPSON, F.C.A. (*Project Director, Financial Management for the Royal Commission on Government Organization*): Mr. Chairman, thank you for those kind words.

At the outset it would be inappropriate for me to comment on the findings and conclusions of the Commission in view of the fact it has not yet completed its task. However, you requested me to discuss some of the background of the financial management project, a job which required careful planning. I have prepared a memorandum which I will be pleased to file with the committee. However, at this juncture I am going to deal with some of the highlights of this memorandum.

The CHAIRMAN: Have the members copies of the memorandum?

Some hon. MEMBERS: Yes.

The CHAIRMAN: Is it the wish of the committee that this memorandum be printed as an appendix to today's proceedings?

Some hon. MEMBERS: Agreed.

Mr. THOMPSON: At a later date, if you desire, I shall be pleased to answer any questions which you may wish to raise.

I now propose to cover the highlights of the memorandum which just has been filed. First, by way of introduction, the royal commission on government organization was appointed in September, 1960 "to inquire into and report upon the organization and methods of operation of the departments and agencies of the government of Canada and to recommend any changes therein which they consider would best promote efficiency, economy and improved service in the despatch of public business". That is the end of the quotation.

With respect to financial management and without restricting the generality of the foregoing the commission was instructed, among other matters, to report upon steps that may be taken for the purpose of: "making more effective use of budgeting, accounting and other financial measures by means of achieving more efficient and economical management of departments and agencies, and improving efficiency and economy by alterations in the relations between government departments and agencies, on the one hand, and the treasury board and other central control or service agencies of the government on the other."

The enquiry was concerned with the structure and practices of the government rather than the policy goals to which government operations are directed.

Now, in connection with the project on financial management, we were instructed by the commission "to determine whether and by what means the budgeting and accounting practice of the government and its system of expenditure control can contribute more effectively to the planning, management and assessment of government operations; to examine government practice in the auditing and verification of records of the public; and to investigate certain aspects of fiscal management and the administration of special funds."

I should state at this point that while the detailed investigation of financial management in the government of Canada was conducted by the project group, the commissioners to whom the group reported assumed full responsibility for the findings and conclusions that appeared in their report. We were assisted by an advisory committee of seven eminent Canadians under the chairmanship of Mr. Maxwell W. MacKenzie, C.M.G., C.A., president, Chemcell Limited, Montreal, a former deputy minister of trade and commerce. This committee acted as a sounding board for the project's views and opinions and the meetings we held were most useful. We had seven meetings with the chairman and two meetings with the full committee.

Now, in taking the various project phases, and dealing first with budgeting and accounting practices, our basic objective was to determine whether and by what means the budgeting and accounting practices of the government and its system of expenditure control can contribute more effectively to the planning, management and assessment of government operations. As you know, responsibility for conducting the business of government is vested primarily with parliament, with the executive for over-all management, and with the ministers and deputy ministers for departmental and agency management. In our view—and I think this view is generally shared—government accounting and budgetary practices should be designed to facilitate efficient management at all levels.

Next, I will deal with the annual estimates and public accounts. I will not cover all the points included in my memorandum. However, I would like to say that, the annual estimates that are presented to parliament give the government's expenditure program, and all subsequent matters in connection with the executive, departments and agencies are based on the approval of these estimates. It is the duty of all concerned to see that the wishes of parliament are carried out. The government's accounting system must necessarily follow the pattern of the estimates, and the public accounts indicate to parliament to what extent their wishes have been carried out.

Now, I do not propose, as I said, to go into detail on each of the various steps which were taken, but the project with which I was associated covered all phases in connection with the preparation and submission of the estimates, and the preparation of the public accounts.

There is one main point which I should repeat; the estimates and accounts should be used as tools for parliamentary controls, as a means of treasury board control over expenditure and management tools for the departments and agencies.

In connection with the project's studies we examined practices followed in the United Kingdom, the United States and the provinces of Canada, and also by large commercial corporations. We made a very detailed study of what we termed the expenditure process, reviewing major departments and some smaller ones, to ascertain the machinery and procedures which were adopted and followed and how these fitted into the general over-all scheme of central control. We looked into the functions of treasury board, questions of policy or detail. We looked at the regulations and we examined the functions of the comptroller of the treasury and how his functions tied in with the operations of the departments, and of the treasury board, having regard at all times to the

statutory provisions of the Financial Administration Act. In making this review of expenditure, the fundamental considerations included the degree to which there should be an increase in accountability and the responsibility of management at the department level, as well as the degree to which there should be a corresponding reduction in the detailed central control presently exercised by treasury board, the comptroller of the treasury and the Auditor General. When I mention the Auditor General I might point out that he is not an executive official but he has certain duties prescribed by parliament which he is obliged to follow.

With respect to the revenues of Canada, we looked into and made inquiries into the machinery—and procedures for receiving and depositing cash and collecting receivables. We also looked into the authority, responsibility and control over such revenue, as well as the coordination between departments, the comptroller of the treasury, and treasury board.

We followed the same research technique when looking at revenues as we did when we initiated our studies into the expenditures. First, there was an initial pilot study, in considerable detail, for one major department, involving confirmation of findings by checking at both headquarters and field operational levels. Second, as a result of this pilot study, confirming studies were made in selected departments based on the variety of sources of revenues and the nature of the departmental activities. We also reviewed over-all government operations, particularly with respect to expenditure and revenue control as an aspect of management, the existing department and agency practices.

On the question of departmental financial reports, the timing, format and distribution, we examined the comptroller of the treasury reports to the Minister of Finance, and we looked at the evaluation of effectiveness of available information for the processes of management.

With respect to auditing, we divided our research into two categories: the auditing of government accounts, and the auditing of other than government accounts. In government accounts we looked into departmental and agency audits. We reviewed the work of the audit services division of the comptroller of the treasury performing departmental audits, and we looked into the audits of taxation, customs duties and post office revenues.

Now quite distinct from these audits, the government is interested in making sure that it receives revenues from sales tax, income tax, and so on. So we looked at the sales tax and income tax audits. This also included the payroll audits by the Department of National Revenue (Taxation) and the unemployment insurance commission. We reviewed the Post Office audit of mailing records of publishers, and we reviewed the cost audits by the comptroller of the treasury.

We also spent a considerable amount of time on certain aspects of the fiscal management, and under this caption we paid particular attention to the basis and collection of general revenues to cash management and forecasting of revenues and expenditures. We reviewed briefly the operations of crown companies and questions of the government investment and retained earnings by those companies. We also looked into the operation of numerous revolving funds which exist in the several departments of government.

During the course of our work we made monthly progress reports to the commission and to the advisory committee. These included a review of work completed, in progress and planned. Periodically, detailed interim reports were submitted to the commission on the various phases of the investigation.

In conclusion I would like to say that throughout its task the project received maximum cooperation and assistance from the deputy minister of finance, the comptroller of the treasury, the secretary of the treasury board,

the Auditor General, the deputy ministers and officials of the various departments, and the heads of crown corporations and agencies, all of which materially assisted the investigation and is gratefully acknowledged.

The CHAIRMAN: Thank you, Mr. Thompson.

Mr. WINCH: Mr. Chairman, if you have in mind what I have, may I state that I feel certain that all members of the public accounts committee would like to convey through you to all these gentlemen our appreciation of their courtesy in coming here this morning at our opening meeting and giving us a breakdown of their duties and their responsibilities. I feel very certain that is going to prove most valuable to us in the method by which we tackle the responsibilities which are imposed on us as members by the House of Commons. May I also, sir, just add that we appreciate very much the statements made by each and every one of them that they are at the service of this committee. If I can speak, sir, from past records of this public accounts committee, I can assure them that in the fulfillment of our responsibility we most certainly will be calling upon them, and I know that from what they have all expressed we will receive not only their fullest cooperation but also their advice in helping this committee. I would therefore like to say thank you on behalf of the committee.

The CHAIRMAN: May I suggest that you leave the next meeting to the call of the Chair some time in the new year. Of course the steering committee will be called into session, and at that time I would hope that we would have a much more detailed report to submit to you for your approval as to the direction in which we should go and as to the type of work we should do.

Mr. CARON: Could I suggest that the printed report of this sitting of today be sent to the private addresses of the members who are going to be away for a month so that they have a chance to look at it?

The CHAIRMAN: It is agreed.

Gentlemen, If there is nothing further I would like to adjourn this meeting.

Mr. OLSON: May I take it from your remarks, Mr. Chairman, that you intend to call the steering committee before the end of the session, or is it after?

The CHAIRMAN: After. Thank you for coming.

THE FOLLOWING IS AN ENGLISH TRANSLATION OF THE
DELIBERATIONS CARRIED ON IN FRENCH ON THIS DATE

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The CHAIRMAN: It gives me great pleasure to welcome the French-speaking members of this Committee. I trust they will not hesitate to express themselves in their own language if they so wish, and it would perhaps be an obligation upon them to do so. The Committee has the services of bilingual stenographers and interpreters and members are entitled to express themselves in one or other of the two official languages.

* * *

Pages 9-10

The INTERPRETER: It is ordered that the Standing Committee on Public Accounts be authorized to print the documents and testimony, publication of which it will order; that in this connection application of section 66 of the regulation be suspended; that the quorum be reduced from 15 to 10 members; and that application of section 65(1)(e) of the regulation be suspended in this connection.

It is ordered that the reports of the Canada Council for fiscal years ended 31st of March 1961 and 31st of March 1962, which were put before the House on the 1st of July 1961 and the 10th of October 1962, respectively, be referred to the Standing Committee on Public Accounts so that they might examine them, pursuant to section 23 of the Canada Council Act.

It is ordered that the Public Accounts (volumes I, II and III), together with the Auditor General's report for the financial year ending the 31st of March 1961, and that the financial statement of the Canada Council, for the fiscal years ended the 31st of March 1961 and 1962 together with the Auditor General's report relating thereto, be referred to the Standing Committee on Public Accounts.

* * *

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The CHAIRMAN: Our Committee is well aware of the fact that it is considering all government expenditures. It offers the Auditor General a unique opportunity of presenting his views on these expenditures.

For four years our Committee has worked hard as a team in which each member contributed his wholehearted co-operation without regard to party political differences. It has always known how to place the interests of the nation above individual interest.

I am convinced that it will continue to be like this and that the Committee, once again this year, will be extremely careful to be fair toward the witnesses, whose task is very difficult.

M. ALEXIS CARON: All those reports are available to us?

The CHAIRMAN: Yes.

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Mr. HENDERSON: As a former citizen of the city of Montreal and as a member of the Institute of Chartered Accountants of Quebec, it gives me great pleasure today to welcome the members of the Standing Committee on public accounts who are from my native province. My grandmother was French but in spite of that I must admit that I don't speak this language as fluently as I would like to. If I try hard you will no doubt be kind enough to tell me that you have understood at least a part of what I have to say.

Thus, Mr. Chairman, I am anxious, on this occasion, to assure you that discretion is certainly the better part of valour.

* * *

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Mr. MARCEL LAROCHE: It gives me great pleasure to be among you, today.

APPENDIX A

ROYAL COMMISSION ON GOVERNMENT ORGANIZATION

Statement of James C. Thompson, F.C.A. Project Director, Financial
Management before the Public Accounts Committee
December 13, 1962

INTRODUCTION

The Royal Commission on Government Organization was appointed in September 1960 "to inquire into and report upon the organization and methods of operation of the departments and agencies of the government of Canada and to recommend the changes therein which they consider would best promote efficiency, economy and improved service in the despatch of public business".

With respect to Financial Management and without restricting the generality of the foregoing the Commission was instructed, among other matters, to report upon steps that may be taken for the purpose of:

—making more effective use of budgeting, accounting and other financial measures by means of achieving more efficient and economical management of departments and agencies, and

—improving efficiency and economy by alterations in the relations between government departments and agencies, on the one hand, and the Treasury Board and other central control or service agencies of the government on the other."

The inquiry was concerned with the structure and practices of the government rather than the policy goals to which government operations are directed.

Project Group No. 1 designated as "Financial Management" was instructed by the Commission "to determine whether and by what means the budgeting and accounting practice of the government and its system of expenditure control can contribute more effectively to the planning, management and assessment of government operations; to examine government practice in the auditing and verification of records of the public; and to investigate certain aspects of fiscal management and the administration of special funds".

The central problem lay in the fact that budgeting, expenditure control, and accounting must, on the one hand reflect the essential unity of government, reinforced by the need for effective parliamentary control, and on the other, serve the needs of a management which is constituted on a departmental and agency basis. The essential task was to determine how successfully these two needs are met under the existing system and consider whether and by what means improvements could be made.

While the detailed investigation of Financial Management in the Government of Canada was conducted by the Project Group, the Commissioners assumed full responsibility for the findings and conclusions appearing in their report.

The project group was assisted in its task by an Advisory Committee of 7 under the chairmanship of Maxwell W. MacKenzie, C.M.G., C.A., President, Chemcell Limited, Montreal, a former Deputy Minister of Trade and Commerce.

Project Phases

Areas of study included the following:

*I—BUDGETING AND ACCOUNTING PRACTICES**A—Objectives*

The basic objective was to determine whether and by what means the budgeting and accounting practices of the Government and its system of expenditure control can contribute more effectively to the planning, management and assessment of government operations. Responsibility for conducting the business of government is vested primarily with Parliament, with the Executive for overall management, and with the Ministers and Deputy Ministers for departmental and agency management. Government accounting and budgetary practices should be designed to facilitate efficient management at all levels.

B—Annual Estimates and Public Accounts

Research activities included the following:

1. Principles governing the annual estimates and public accounts:

- (a) Control of accounting policy; Treasury Board, Comptroller of the Treasury, Departments
- (b) Relationship of accounts to estimates
- (c) Basis of classification and coding, objects or programmes
- (d) Accrual or cash accounting
- (e) Undistributed costs
- (f) Capital outlays
- (g) Role of Supplementary Estimates
- (h) Budgeting and disclosure of forward commitments
- (i) Estimating statutory expenditures
- (j) Net debt
- (k) Write-off of assets
- (l) Reserve against possible losses

2. Format of Estimates and Public Accounts

- (a) Structure and layout
- (b) Number and type of items to be included
- (c) Extent of supporting detail.

3. Preparation

- (a) The role of the Treasury Board: policies and standards, details of Estimates
- (b) Departmental budgetary practices
- (c) The role of the Comptroller of the Treasury
- (d) Auditor General's reports
- (e) Statement of Assets and Liabilities

4. Evaluation

The effectiveness of the use of the Estimates and Accounts:

- (a) as tools for parliamentary control
- (b) as means of Treasury Board control over expenditures
- (c) as management tools for departments and agencies

C—Comparisons

Comparison of Government of Canada budgeting practices with other governments and commercial practices.

1—United Kingdom

- as a result of this pilot study, confirming studies were made in selected departments on the basis of the variety of sources of revenues, the nature of the departmental activities being a factor in making these selections.

IV—MANAGEMENT OF GOVERNMENT OPERATIONS

Our research activities included:

- Expenditure and Revenue control as an aspect of management
- Existing department and agency practices
- Departmental financial reports:
 - Timing
 - Format
 - Distribution
- Comptroller of the Treasury reports to Minister of Finance
- Evaluation of effectiveness of available information for processes of management

V—AUDITING

Under this caption research activities included:

- A. The auditing of government accounts
 - Departmental and agency departmental audits
 - Audit Services Division of the Comptroller of the Treasury performing departmental audits
 - Taxation, customs duties and post office revenues
- B. The auditing of other than government accounts
 - Sales tax and income tax audits
 - Payroll audits by Dept. of National Revenue (Taxation) and the Unemployment Insurance Commission
 - Post Office audit of mailing records of publishers
 - Cost audits by the Comptroller of the Treasury

VI—ASPECTS OF FISCAL MANAGEMENT

Under this heading consideration was given to:

- Basis and collection of general revenues
- Cash management and forecasting
- Crown Companies: Government investment and retained earnings
- The operation of revolving funds

Progress Reports

Progress reports were made monthly to the Commission and the Advisory Committee. These included a review of work completed, in progress and planned. Periodically, detailed interim reports were submitted to the Commission on the various phases of the investigation.

Advisory Committee

The Advisory Committee acted as a sounding board for the project's views and conclusions. Seven meetings were held with the Chairman and two with the full committee.

Visits to London and Washington

The project director spent a week at each location discussing and comparing Canadian practices with those of the United Kingdom and the United States of America. Valuable information was obtained as a result of these visits.

General

The project in its task received maximum co-operation and assistance from the Deputy Minister of Finance, the Comptroller of the Treasury, the Secretary of the Treasury Board, the Auditor General, the Deputy Ministers and officials of the various departments, and the heads of Crown Corporations and agencies, all of which materially assisted the investigation and is gratefully acknowledged.

HOUSE OF COMMONS

First Session—Twenty-fifth Parliament
1962-63

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, JANUARY 29, 1963

Auditor General's Report for the Fiscal Year
ending March 31, 1962

WITNESSES:

Mr. M. Henderson, Auditor General of Canada; Mr. J. G. McEntyre, Deputy Minister (Taxation), Department of National Revenue; Mr. Ian Stevenson, Assistant Auditor General; and Messrs. G. R. Long, C. E. Cheney and J. M. Laroche, of the Auditor General's Office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1963

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton

Vice-Chairman: Mr. Lloyd R. Crouse

and Messrs.

Asselin,	Gauthier,	Muir (<i>Lisgar</i>),
Beaulé,	Godin,	Noble,
Benson,	Gray,	Olson,
Cadieux (<i>Terrebonne</i>),	Hales,	Perron,
Cameron (<i>Nanaimo-</i>	Hellyer,	Pigeon,
<i>Cowichan-The Islands</i>),	Horner (<i>Jasper-Edson</i>),	Pugh,
Caron,	Lessard (<i>Saint-Henri</i>),	Rapp,
Chaplin,	Létourneau,	Rochon,
Cowan,	Lewis,	Rondeau,
Davis,	Macdonald (Mrs.),	Scott,
Drury,	Macdonald (<i>Rosedale</i>),	Skoreyko,
Dubé,	MacRae,	Smith (<i>Simcoe North</i>),
Dupuis,	McCleave,	Stefanson,
Fleming (<i>Okanagan-</i>	McGee,	Teillet,
<i>Revelstoke</i>),	McGrath,	Tucker,
Forbes,	McIlraith,*	Winch—50.
Frenette,	Moore,	

(Quorum—10)

R. L. Boivin,
Clerk of the Committee.

*Replaced Mr. Honey on January 28, 1963, prior to the third meeting.

ORDERS OF REFERENCE

WEDNESDAY, January 23, 1963.

Ordered,—That the Public Accounts, Volumes I, II, and III, and the Report of the Auditor General for the fiscal year ended March 31, 1962, be referred to the Standing Committee on Public Accounts.

MONDAY, January 28, 1963.

Ordered,—That the name of Mr. McIlraith be substituted for that of Mr. Honey on the Standing Committee on Public Accounts.

Attest.

Léon-J. Raymond,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

TUESDAY, January 29, 1963.

(3)

The Standing Committee on Public Accounts met this day at 9.30 o'clock a.m. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Asselin, Beaulé, Benson, Cadieux (*Terrebonne*), Cameron (*Nanaimo-Cowichan-The Islands*), Caron, Cowan, Crouse, Dubé, Fleming (*Okanagan-Revelstoke*), Forbes, Frenette, Gauthier, Gray, Hales, Lesard, (*Saint-Henri*), Lewis, Macdonald (*Rosedale*), Macnaughton, MacRae, McCleave, McGee, McGrath, McIlraith, Moore (*Wetaskiwin*), Muir (*Lisgar*), Noble, Olson, Pugh, Rapp, Rondeau, Scott, Smith (*Simcoe North*), Stefanson, Teillet, Tucker, Winch—(37).

In attendance: Mr. M. Henderson, Auditor General of Canada; Mr. J. G. McEntyre, Deputy Minister (Taxation), Department of National Revenue; Dr. M. Ollivier, Law Clerk, House of Commons; Mr. Ian Stevenson, Assistant Auditor General; and Messrs. G. R. Long, C. E. Cheney, M. Laroche, of the Auditor General's office.

The Chairman called the meeting to order and presented an oral report of the Subcommittee on Agenda and Procedure recommending that the Committee hold its next meeting on Tuesday, January 29, 1963, that the Report of the Auditor General of Canada for the fiscal year ending March 31, 1962, be considered at that meeting, and that priority be given to two items therein, namely, paragraph 95, page 42 "Access to taxation collection files refused" and paragraph 21, page 6, "Recruitment of audit office staff", and that witnesses be summoned.

The said Report of the Subcommittee on Agenda and Procedure was concurred in on motion of Mr. Lewis, seconded by Mr. Scott.

The Chairman then introduced Mr. M. Henderson and invited him to make a statement on the item entitled "Access to taxation, collection files refused" in his Report for the fiscal year ending March 31, 1962 (paragraph 95).

In his opening remarks, Mr. Henderson introduced to the Committee those members of his staff who were in attendance and dealt with the history and background of the audit office work in the Taxation Division.

Mr. Stevenson then read into the record and filed with the Committee as Exhibit "A" (*See Evidence*) a memorandum to inspectors of Income Tax by Mr. F. H. Brown, dated January 27, 1947, and as Exhibit "B" (*See Evidence*) a memorandum issued to officers in charge of revenue audits by Mr. Watson Sellar, through Mr. Stevenson, dated June 29, 1947.

Mr. Long and Mr. Cheney then explained to the Committee how assessments are checked by the Auditor General's staff in the Taxation Division.

Mr. Henderson resumed his statement and filed as Exhibits "C", "D", "E" and "F" (*See Evidence*) correspondence exchanged by him with Mr. J. G. McEntyre from May 8, 1962, to September 13, 1962.

Mr. Henderson concluded his statement and the witnesses were further questioned.

The Chairman introduced Mr. J. G. McEntyre who briefly outlined some operations and procedures of the Taxation Division and was examined thereon.

At the suggestion of Mr. Benson, the Committee agreed to send a formal request to the Minister of Finance inviting him to attend the next meeting of the Committee, and to send to the Deputy Minister of Justice and Deputy Attorney General of Canada a request that he attend the next meeting of the Committee.

NOTE: Pursuant to a resolution adopted by the Committee on Thursday, December 13, 1962, (See Issue No. 1, page 7), the "Follow-up Report by the Auditor General to the Standing Committee on Public Accounts on the Action Taken by Departments and Other Agencies in Response to Recommendations made by the Committee in 1961", which was distributed to the Members on January 14, 1963, is printed as Appendix "A", following the Evidence reported this day.

At 12.10 o'clock p.m. the Committee adjourned to the call of the Chair.

R. L. Boivin,
Clerk of the Committee.

PROCEEDINGS

TUESDAY, January 29, 1963

The CHAIRMAN: Gentlemen, we have a quorum now. I would like to get through a little general business first before we get down to the subject of our discussions. A follow-up report of the Auditor General, which this committee has instituted for the last four years, at least, was sent out to the members, upon your instructions at the last meeting held in December. It was sent out to you on January 14, and I presume everyone has a copy. If not, he should obtain a copy, because it contains very interesting information as to what has taken place with regard to the various recommendations made by this committee last year.

At this time I would like to give you a short verbal report of the subcommittee on agenda and procedure. You will recall that on Wednesday, January 23, there was considerable discussion in the House of Commons and subsequently the public accounts and the Auditor General's report for the year ending March 31, 1962 were referred to this committee.

On Thursday—the next day—the subcommittee met and recommended for your consideration that this meeting be held as soon as possible, and at this meeting the order of priority be section 95 of the Auditor General's report for 1962 relating to access to taxation collection files refused; that is the heading in the report; and section 21, recruitment of audit office staff. That is the heading in the Auditor General's report.

Acting on the assumption that the subcommittee's recommendations would be approved, we have asked various witnesses to come here this morning. First of all may we clear—if that is your desire—approval of the subcommittee's report?

I see there is unanimous acceptance of this report. So may I suggest that when evidence is given by various witnesses, in testimony and support of the Auditor General, that they be allowed to give their evidence without interruption. At the conclusion of their evidence we might question each witness and continue in that way.

Mr. WINCH: Who are the witnesses for this morning?

The CHAIRMAN: There are two witnesses, certainly, on the first section, which is section 95, and which you will find on page 42 of the Auditor General's report for 1962, dealing with access to taxation collection files refused.

The first witness is Mr. Max Henderson, the Auditor General, and he will have other witnesses with him. I presume the first witness—if I may say so—on the other side will be J. Gear McEntyre, deputy minister of national revenue, taxation division, and he may have one or two witnesses.

Mr. WINCH: May I ask if the request made to the subcommittee was followed through namely that a representative be here from the Department of Justice? This matter was referred to at one time?

The CHAIRMAN: Yes, Dr. Ollivier, legal advisor of the House of Commons, will be here at 10 o'clock. He is giving a lecture at the moment, but he will be here at 10. Do you have anyone in mind?

Mr. WINCH: I am going back to 1959 when a question arose of a somewhat similar nature, and when we had the deputy attorney general appear before us. I understood that would be done on this occasion as well.

The CHAIRMAN: As a matter of fact, I did telephone to the deputy minister of justice, and that was followed up with a letter from the secretary of this committee to Mr. E. A. Driedger, deputy minister of the Department of Justice. Would you like me to read that letter?

Mr. WINCH: No, I just wanted to know if you followed it up.

The CHAIRMAN: We have received a reply suggesting that he could not attend nor assist the committee if he were called upon, and he has replied. Mr. Secretary, do you have the original letter? Shall I read this letter?

Mr. WINCH: Yes, let us hear it.

The CHAIRMAN:

Ottawa 4, January 25, 1963.

Dear Mr. Boivin:

I acknowledge your letter of January 24 in which you express the hope that I will be able to attend the meeting of the committee on public accounts of the House of Commons to be held on January 29 next, for the purpose, as explained to me by the chairman of the committee, in my telephone conversation with him yesterday, of expressing to the committee my opinions on the interpretation of a number of statutes in relation to certain incidents described in the report of the Auditor General to the House of Commons for the fiscal year ended March 31, 1962.

Constitutionally and historically, as well as under the express terms of the Department of Justice Act, the Minister of Justice and Attorney General of Canada is the official legal adviser of the crown, rather than of parliament, and he is also charged with the responsibility of advising the heads of the several departments of the government upon all matters of law connected with such departments. Consequently, it is not his duty or function, and therefore not the duty or function of his deputy, to give legal advice to either of the houses of parliament or any committee thereof.

The foregoing principles are, I believe, well recognized and firmly established, and have on various occasions been stated by every one of my predecessors during the present century.

The situation is, of course, different where the Attorney General of Canada through his deputy makes a legal explanation of a government measure, and I appreciate also that there have been occasions where the deputy attorney general has, with the approval of the Attorney General, endeavoured to assist a parliamentary committee in the legal considerations involved in a study undertaken by a parliamentary committee. Where, however, as in the present case, the matters upon which my opinion is being sought are ones upon which I would be under a duty to advise departments of Government, you will I am sure, appreciate that there would be an impossible conflict of duty if I were required, at the same time, to advise other persons, even though they be the members of a committee of the House of Commons, in respect of the same matter.

In the circumstances, therefore, I do not feel that it would be proper or prudent for me to transgress the strict bounds of my constitutional responsibilities.

Yours truly,

E. A. Driedger,
Deputy Attorney General.

Mr. WINCH: Perhaps we should wait for a little time, because if my memory is correct, the Department of National Revenue had sought the advice of the Department of Justice in a similar matter when it came up, and when I presume the same decision was made. I am going by memory, but I cannot accept the statement there, that for half a century they have not appeared, because in 1959, the deputy attorney general did appear before this committee. But I presume we may leave the matter until we can be more specific on information as to whether or not there was a decision made by the Department of Justice. It strikes me that it is amazing that if a decision has been reached, we cannot hear from the Department of Justice about it.

The CHAIRMAN: That is his interpretation, and I do not agree with his interpretation. Mr. Driedger did appear before the committee in 1959, as may be seen at pages 118 to 154 of the text of the evidence of the proceedings of this committee.

Mr. WINCH: As far as I am concerned, I will leave the matter until we obtain specific information from other witnesses as to whether there was a decision reached, or advice received from the Department of Justice.

Mr. LEWIS: Or, more particularly, until we see whether or not Mr. Driedger can be of assistance.

The CHAIRMAN: Very well.

Mr. CARON: I think they said that they did not have any report from an officer from the Department of Justice up until the report was written. But they may have received one since then. I do not know.

The CHAIRMAN: Gentlemen, shall we proceed? The first item is section 95, and it is to be found at page 42 of the Auditor General's report. The heading is: "Access to Taxation Collection Files Refused".

Mr. Henderson, you are the Auditor General and this is your report and these are your remarks. What have you got to say?

Mr. A. M. HENDERSON (*Auditor General for Canada*): Thank you, very much, Mr. Chairman. I should like to open my remarks today by just mentioning the very high value we attach to our harmonious relationships with all government departments, and particularly with the taxation division and its head office. It is a matter of regret to me that it should be necessary to bring the officials here today, particularly my friend, Mr. J. Gear McEntyre. However, I am sure he and his officials will join with us in welcoming the opportunity to discuss the matter with the committee.

A little earlier Mr. Winch inquired as to the witnesses who might be here. Perhaps I might therefore just take this opportunity to mention those I have brought along. I think the members of the committee are familiar with Mr. Ian Stevenson, the assistant auditor general, and Mr. George R. Long, who is my audit supervisor and responsible for all revenue department work. With Mr. Long is Mr. C. E. Cheney, who is in charge of taxation audit work. He has been in charge for many years, and he has been brought here, in fact, especially today from Halifax, where he and his staff right now are auditing the taxation records of the Halifax office.

In addition, Mr. Long has with him Mr. Laroche, of his revenue audit branch.

Before commencing what I have to say, may I ask a question, sir, of Mr. McEntyre, through you?

The CHAIRMAN: Yes, certainly.

Mr. HENDERSON: I would like to ask Mr. McEntyre if a legal opinion has been received yet from the law officers of the crown regarding my right of access to the records of the taxation division?

Mr. J. Gear McENTYRE (*Deputy Minister, Department of National Revenue, Taxation Division*): No, not to my knowledge.

Mr. HENDERSON: Thank you very much for your reply, because I shall now proceed, and I would like first of all to deal with the background and history of the audit office work in the taxation division. After I have dealt with that, I would like to refer specifically to paragraph 95. But it is essential, as I fancy you will agree, that you have some knowledge of the background and history of what we do and why we do it.

I do not propose to go back in history before world war II. In the 1930's the Auditor General did have problems as to his right of access to income tax records, but he was operating under different legislation at that time. This, however, became straightened away in the post war years and the practices were later confirmed by the Financial Administration Act, which was promulgated in 1952.

Now, in following through the various steps, I would like to turn first of all to January 27, 1947, and to a memorandum issued to inspectors of income tax by Mr. F. H. Brown, who was one of Mr. McEntyre's predecessors. I would now ask Mr. Stevenson to read that memorandum to the committee.

Mr. I. STEVENSON (*Assistant Auditor General*): Mr. Chairman, this is the memorandum to which the Auditor General has referred.

[*Exhibit "A"*]

MEMORANDUM TO INSPECTORS OF INCOME TAX

It has been decided to give duly accredited officials of the office of the Auditor General full access to personal income tax files to the degree deemed necessary for completion of the Auditor General's work.

In the past, we have taken the view that our oath of secrecy stood in the way of our making these files available to the Auditor General's staff, but the writer does not subscribe to this view. The Auditor General's officers will be bound by the same oath of secrecy and there can be no more objection to the official auditors of all government departments having access to full information than there is to the official auditors of a corporation being given access to all the papers in its possession.

Apart from this, the fact that we are subject to an outside check carries distinct advantages; in the interpretation of our instructions, we may be making some major oversights, or we may be either too lax or too strict in our methods.

We have nothing to fear from criticism by the Auditor General whose attitude has always been most constructive.

Accordingly, it is our desire that you should welcome his staff in every possible way, facilitate their work and make available to them anything they may ask, without reserve.

(signed) F. H. Brown
Deputy Minister (Taxation).

27th January, 1947.
FHB/MB

Mr. HENDERSON: Thank you, Mr. Stevenson. Now may I direct another question to Mr. McEntyre? It has been assumed by my officers and myself that this memorandum has remained in effect down through the years; at least it has never been countermanded to our knowledge. Would you say that is correct?

Mr. McENTYRE: That is right; it has never been countermanded.

Mr. HENDERSON: Thank you, sir. My predecessor, Mr. Watson Sellar, authorized a memorandum of instructions addressed to the officer in charge of taxation audits. I am going to ask Mr. Stevenson if he would be so kind as to read that memorandum now. And I might add that Mr. Stevenson was then in charge of that particular field.

Mr. STEVENSON: Yes, Mr. Chairman, this is the memorandum.

[*Exhibit "B"*]

The Auditor General has directed that in making audit examinations at district offices of the taxation division in future, we are to examine the personal files of taxpayers to the extent deemed necessary for audit purposes. For the time being, examinations of these files are to be considered as associated only with the audit of collections (enabling us to properly "round out" our present audit examinations). Entry into the broader field of assessment verification is not being considered, for the time being at least.

In accordance with the foregoing policy, the personal files of taxpayers will be regarded as available for use in affording explanations for instances where:

1. assessments have been delayed for unusually long periods (as indicated by uncleared prior year credits in taxpayers' ledger accounts).
2. assessment decreases of comparatively large amounts have been recorded to the credit of taxpayers' ledger accounts.
3. arrangements have been entered into for deferred or instalment payments, in the settlement of overdue balances.

In addition, the personal files will be available for use in verifying that:

1. Refunds are properly substantiated by T4 and other information slips, showing tax deductions at the source.
2. When penalties are imposed for the late filing of income and information returns, they are imposed in accordance with the governing sections of the Income War Tax and Excess Profits Tax Acts.
3. Remissions are granted in accordance with the provisions of the governing Orders in Council.
4. Recoveries are being effected from trustees in bankruptcy, when the Taxation Division is a creditor in bankruptcy proceedings.

Section 81 of the Income War Tax Act forbids the communication of any income tax information to any person not legally entitled thereto, and provides a penalty for violation of this provision. We should regard ourselves as being bound by this section, and you and your assistants should arrange, through the appropriate departmental officer, to take any special oath of secrecy required of employees in the taxation division. Will you please attend to this before your proposed visit to the Belleville district office.

In making examinations of taxpayers' personal files, the secret nature of the information contained therein will be constantly kept in mind. Files will be drawn only when required for the supplying of information necessary to clear specific queries noted in preliminary phases of an audit examination. Information abstracted from the personal files should be limited, with care, to that necessary to substantiate, verbally, any observations contained in letters to the assistant deputy minister (administration), for his information and any necessary departmental action, following the audit examination. Taxpayers names will

not be referred to in written communications to the department, nor will they be associated with any observations made by the Auditor General in his annual report to the House of Commons.

The exercise of statutory discretions will not be a matter for consideration unless and until the audit may be extended to include assessment verification (at which time, careful consideration will need be given to the matter in order to determine the best audit approach). In the meantime, the Auditor General points out that our interest in any statutory discretion is merely whether or not it has been legally exercised.

The CHAIRMAN: Thank you, Mr. Stevenson.

Mr. PUGH: Might we identify that?

Mr. HENDERSON: The memorandum is one written on instructions given; it is a memorandum by the audit branch supervisor to the officer in charge of the taxation audit section.

Mr. PUGH: Yes, but what is the date?

Mr. HENDERSON: The date is January 29, 1947.

Mr. PUGH: Is it a memorandum?

Mr. HENDERSON: It is a memorandum by the audit branch supervisor; that is to say, the supervisor at head office, at the Auditor General's office, to the officer in charge of the taxation audit section, at the taxation division headquarters. Is that clear?

Mr. PUGH: Thank you.

Mr. LEWIS: Are these letters being filed as exhibits so that we might see them before the report is printed?

The CHAIRMAN: Are you filing copies?

Mr. HENDERSON: Yes sir, we are pleased to do so.

The CHAIRMAN: Perhaps you had better number them A, B and C.

Mr. HENDERSON: From the time that this memorandum and these instructions were issued the Auditor General's office has had unrestricted access to all files in the course of its examinations in the taxation division in order that we could satisfy ourselves that:

- (1) Collection action is adequate and in accordance with head office instructions;
- (2) There were adequate explanations for outstanding balances of long-standing;
- (3) Assessment adjustments were in order and properly approved;
- (4) Refunds had not been made when there were unpaid taxes for previous years;
- (5) Income as revealed by information returns was being declared and assessed;
- (6) Income returns had been filed annually and there was a proper follow-up when returns were not received;
- (7) Assessments are in order.

Now, the responsibilities of the Auditor General in connection with these records then became more clearly defined as I said earlier, with the coming into force of the Financial Administration Act in 1952. That is to say, it came into force in 1952 which, I believe, was some four years after the Income Tax Act had been enacted.

Since I quoted section 66 of the Financial Administration Act in paragraph 95, I would like to read the first and third subsections, for your information.

Subsection (1) reads as follows:

Notwithstanding any act, the auditor general is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every department and he is also entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties.

At this time I might read to you subsection (2) which is as follows:

The Auditor General may station in any department any person employed in his office to enable him more effectively to carry out his duties, and the department shall provide the necessary office accommodation for any such officer so stationed.

I next come to subsection (3), which reads as follows:

The Auditor General shall require every person employed in his office who is to examine the accounts of a department pursuant to this act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by persons employed in that department.

Section 67 of the same act goes on to say:

The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the consolidated revenue fund and to public property and shall ascertain whether, in his opinion:

- (a) the accounts have been faithfully and properly kept,
- (b) —

And this I would like to stress for you.

All public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue.

Gentlemen, it may be of interest to note that the provision similar to 67(b), which is the one I just read, existing in the earlier consolidated Revenue and Audit Act—that is to say, the legislation which preceded the Financial Administration Act—which had a section in it rather similar, which I will read to you now. It reads as follows:

45(1) The Auditor General shall satisfy himself that the revenues are being fully accounted for, and shall examine at his discretion, the accounts of all persons employed in the collecting and managing of revenues.

Now, in considering the implications of the more clearly defined responsibility with regard to the audit of revenue, my predecessor, Mr. Watson Sellar, wrote to the then deputy minister of national revenue for taxation, Mr. Charles Gavsie on May 23rd, 1952 in part as follows:

Constitutional usage is to regard the minister administering a tax statute as the person answerable to the House of Commons for the efficiency by which the revenue is governed. Moreover the house has consistently declined to order that information be given respecting payments by specified individuals, therefore I lean to the view that the new directions do not contemplate that the Auditor General need, for example,

- (a) establish any relationship with taxpayers;
- (b) review the consequences of any exercise of a statutory discretion, so long as it was exercised in appropriate manner by the appropriate officer; or

(c) as a matter of routine, check detailed calculations of assessments in assessors' working papers.

Put another way, it may be assumed that the audit obligation is to observe the administrative practices and procedures by making such examinations as may, from time to time, be deemed necessary by him.

Further on in the same letter the Auditor General made a request to Mr. Gavsie, as follows:

This office already is provided with copies of directives relating to administrative and collection procedures. The further need now is for those relating to assessing. I imagine that they are numerous and that only a fraction are of audit significance. However, I think it prudent that we have a complete set, and that it be arranged that we are automatically provided with revisions, cancellations and additions. I assume you regard these assessing directives as confidential documents insofar as taxpayers are concerned.

The "assessing guide" was provided as requested and subsequent amendments are provided to my office automatically.

Mr. LEWIS: If I may interrupt, Mr. Henderson, I did not hear the last few words of your sentence.

Mr. HENDERSON: I said the "assessing guide" was provided as requested and subsequent amendments are provided automatically since this was established.

It may be helpful to the members of this committee if I at this time called upon Mr. George Long, my supervisor in charge of revenue audits, to outline for your information, the extent to which assessments are checked in the offices of the taxation division.

Mr. G. R. LONG (*Audit Supervisor, Auditor General's Office*): Gentlemen, it should be kept in mind that our staff auditing income tax consists of three officers, and this has been our strength for some years. Now, the responsibility of these men is to examine the 29 district offices of the income tax department over a cycle of years and to make an annual examination at headquarters.

The question of auditing assessments always has been quite a problem. The income tax department has something like 2500 assessors working and from that you can see how many auditors we would have to have if we were to make even the barest test of the work of these 2500 assessors. Because of this a policy was adopted that we would not go into assessments in detail. We would not establish a group of auditors who were experts in assessing who would go in and try to make a real detailed check of assessments. The procedure in the income tax division is that each assessment is double checked; one assessor makes an assessment and a second assessor checks it. We always have been very satisfied that this provided a very good check on the assessments that were being made. Our policy has been that while we could not check these things in detail, or even on what we might call a real test basis, we would scrutinize assessments when the files were before us for other purposes. Mr. Henderson mentioned these other purposes, including the checking of the adequacy of collection follow-up, verification of adjustments made in balances unpaid, verification of refunds, testing the use made of information returns, and checking the follow-up when income returns have not been filed.

Our findings resulting from these various tests and also with respect to assessments are passed along to officials of the division and it has been our impression that they have welcomed our comments in this respect.

In the years following the war the income tax division undoubtedly did have problems with respect to both collections and assessments; but in recent

years we are happy to be able to say that these problems have been overcome and we regard the department as a very efficiently run department. As a result of this none of our findings in recent years could be regarded as indicating any basic weakness in the assessing or collection or accounting procedures that were being followed by the department. Individual errors or inconsistencies noticed have been taken up with the officers concerned and corrected; however, these were very isolated cases and not indicative of any basic failure in any of the procedures of the department.

It might be helpful to you if I at this time ask Mr. Cheney to explain the nature of the files and the nature of the taxpayers' accounts that he uses in making his examinations in district offices.

Mr. E. CHENEY (*Auditor General's Office*): Mr. Chairman, I think it might be best to start from the actual accounting document which is a ledger card, machine posted, and it is maintained in a tub type of container.

The face of the card in addition to pertinent information such as the name and address of the taxpayer, shows the assessment, dates and amounts of payments, all debit and credit adjustments and penalty and interest assessments and payments.

The reverse of the card is ruled for short inscriptions with regard to action taken to effect collection of the account. Included in these inscriptions are dates of routine actions, follow-up notes on action taken, notes on correspondence, notes on legal actions taken and their progress, notes as to securities held, if any, notes on any arrangement for payments agreed upon, and any other notes pertinent to the collection.

As a result it is an extremely short note, a line or a part of a line is the rule. In many cases this is not sufficient for audit purposes and reference must be made to the taxpayer's file to obtain a complete picture and to determine whether or not effective collection action has been taken.

In the case of adjustments posted to an account the taxpayer's file is the only means of determining the reason for the adjustment and verifying the amount.

And now, in the case of refunds there are no ledger cards. In other words, if a man has a ledger card and gets a refund it means he had a debit balance the prior year and should not have had a refund. The only way that that refund can be verified so as to know if it is in order is to scrutinize the man's income return and verify that the refund was in order. Then, again, information returns, are provided by various people to the taxation division. Of course, these are matched with the taxpayer's return. In order that we can ascertain whether a man has declared all his income we must go through these information slips of various types, draw the taxpayer's return, and see that he has actually declared the income.

That is, in general, Mr. Chairman, the uses that we make of the personal files of the taxpayers.

Mr. BENSON: Were ledger cards made available in all these cases?

Mr. HENDERSON: Mr. Benson, would you like to address that question to Mr. Cheney?

Mr. BENSON: Mr. Cheney, were the ledger cards available in these particular cases mentioned in the report.

Mr. CHENEY: No. In the cases mentioned in the report the ledger card would be in the district office; the head office does not carry personal ledger cards.

Mr. BENSON: But did you see the ledger card at the district office? Did you attempt to do so.

Mr. CHENEY: No; I have not been in those district offices recently.

Mr. BENSON: So there was no attempt made to examine the ledger card?

Mr. CHENEY: No.

Mr. SCOTT: Mr. Chairman, may I ask a question?

The CHAIRMAN: Yes. Proceed.

Mr. SCOTT: Are the ledger cards normally made available on request?

Mr. CHENEY: To the Auditor General?

Mr. SCOTT: Yes.

Mr. CHENEY: Oh yes.

Mr. MACDONALD: Does anything turn on the word "collection" when you refer to that? Is there a distinction between collection and assessment file?

Mr. CHENEY: In some cases, yes; in others, only one file.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, may I ask on what basis does the department select the files for which it will ask. Is it a purely haphazard way or do you go on information received?

Mr. CHENEY: That would depend, if the need for the file arises from an examination of an account. If it is on a refund the man's name and so on would be taken from the treasury files in Ottawa and the file would be drawn from that; if it is just a matter of scrutinizing for assessment accuracy we have no basis to work on and they are drawn completely at random.

Mr. MUIR (*Lisgar*): Mr. Chairman, I would like to clear up one point.

Did I understand you to say, Mr. Cheney, that these particular ledger cards, which this section mentions, would have been available at the offices only in which the returns had been made.

Mr. CHENEY: I could not answer that, sir. Do you speak of those that are mentioned in the Auditor General's report?

Mr. MUIR (*Lisgar*): Yes. Would the ledger cards have been available to your people at the office?

Mr. CHENEY: The ledger card would be, yes, but I doubt very much whether the file was there—I don't know; but the ledger part would have been there.

Mr. BENSON: Why in this instance, when there was consideration given to this report, was there no attempt made to get the ledger cards you needed with the notations on the back of them. Was there no attempt made to get the ledger cards and look at those notations when you could not look at the files as such?

Mr. CHENEY: No. I doubt very much whether the ledger cards would have given any more information that would be of any help.

Mr. BENSON: But you did not attempt to get them.

Mr. CHENEY: No.

Mr. LEWIS: On what basis did you make that judgment? You judged that there would be no additional information on the ledger cards; upon what basis do you say that?

Mr. CHENEY: I just said probably no additional information.

Mr. HENDERSON: In that connection it is mentioned in paragraph 95, where it states that in December, 1961, the treasury board approved, and so on. We had a treasury board minute, and that would have directed our attention to it—that is, the opening words of paragraph 95. Do you note them?

Mr. LEWIS: Yes.

Mr. HENDERSON: The opening words of paragraph 95: "In December 1961 the treasury board approved the withholding of amounts payable"—that would be subject to a treasury board minute.

The CHAIRMAN: And that directed your attention to it?

Mr. LEWIS: Was it Mr. Cheney's experience that the kind of information you want on this sort of item would not be available on the ledger cards?

Mr. CHENEY: Yes; the ledger card would probably note thereon that there was a letter, but I do not think you could see the letter, so the note would not be of very much use.

Mr. HENDERSON: If I might be permitted I would like to ask Mr. McEntyre a third question whether he would consider that Mr. Long's and Mr. Cheney's explanation of procedure was correct? Does he have anything to add to what Mr. Long said, covering any description of procedures?

The CHAIRMAN: Perhaps he would make a comment on it.

Mr. McENTYRE: I would say that Mr. Long and Mr. Cheney have correctly reported the procedure which is followed by your office in reviewing the district office procedures and documents.

Mr. HENDERSON: Thank you, very much. You will therefore see, gentlemen, that the practices and the accessibility to the records of the Auditor General which I have described have thus continued uninterruptedly for the past 16 years.

It may be of interest to this committee if I were at this point to quote from a speech made on February 2, 1956, by the then minister of national revenue, the late Dr. J. J. McCann, in the House of Commons, which is to be found at page 822 of *Hansard* for February 2, 1956. Dr. McCann then said:

There are not many more comments that I wish to make, Mr. Speaker, except to say that in addition to the powers of parliament to which I have just referred, the Auditor General of Canada has free access to and has members of his division practically in our head office...

I am rather intrigued by "practically".

...and in a good many of the more important offices throughout the country. Chapter 116 of the revised statutes of 1952 gives him certain powers. Section 66 of the Financial Administration Act reads as follows:

66. (1) Notwithstanding any act, the Auditor General is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every department, and he is also entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties.

Dr. McCann then continued:

The Auditor General has full authority to examine into the tax returns of any individual or corporation, and he may seek—and he always gets full cooperation and assistance from the members of the Department of National Revenue.

You will therefore appreciate that my auditors assigned to the taxation division of the Department of National Revenue have carried on their work in the taxation division in the same manner as have my auditors assigned to other departments. We have received complete cooperation at all times from all officers of the taxation division and it is only on this one occasion referred to in paragraph 95 that any information or file has been withheld from the Auditor General.

Now, it is customary for the Auditor General in his reports to the House of Commons to acknowledge that he has been given full access to all vouchers, records and files of the various departments, crown corporations and other agencies and I felt, in view of the circumstances described in paragraph 95, I simply could not state that this had been the case in 1962, when collection

files pertaining to taxpayers were withheld from my scrutiny by the Minister of National Revenue.

Before referring to paragraph 95 specifically, may I just explain that in accordance with the long tradition of my office, I am not prepared to say who the three taxpayers are, how much unpaid taxes were owed or the basis on which settlement has been arranged. Any questions members may have on these points should be directed to Mr. McEntyre.

Mr. LEWIS: And he was referring to you as his friend, Mr. McEntyre.

Mr. HENDERSON: I am sorry. I might now turn to the particulars of paragraph 95.

Over a year ago—in fact it was in the early days of January, 1962—Mr. Long reported to me that in the case of three files called for in the course of our work, access had suddenly been denied to Mr. Cheney and his assistants in the head office of the taxation division.

Mr. LEWIS: Does that mean there had not been any other denial of any other file?

Mr. HENDERSON: Absolutely, sir, and I think that will become clear as I proceed. Access had suddenly been denied to Mr. Cheney and his assistants in the head office of the taxation division by the deputy minister, upon instruction from the minister.

I telephoned Mr. McEntyre to inquire the reason; but as he gave me none, I asked him if he would have any objection if I spoke to the minister. He readily agreed.

I telephoned to Mr. Nowlan. He confirmed that he had instructed his deputy minister to withhold these files; that he questioned my right of access to them, and that he was seeking the opinion of the law officers of the crown on the matter. I replied that although the Auditor General's right of access had never been challenged in this way before, I respected his views and would await the legal opinion before taking any further steps. I asked him if he would expedite it and let me see it. He readily agreed.

I then called Mr. McEntyre back to say that I had talked with his minister direct and that he had promised to advise me of the legal opinion as soon as it came to hand. He kindly undertook to facilitate this as best he could for me. After waiting for four months I wrote to Mr. McEntyre on May 8, 1962, in the following terms:

[*Exhibit "C"*]

OTTAWA, May 8, 1962.

Dear Mr. McEntyre,

You will recall that in the first few days of the present calendar year my officers sought access to certain head office income tax collection files, which access was refused. You advised me that the minister wished to obtain a legal opinion from the deputy minister of justice as to whether or not I was to be given access to these files. In a direct conversation I had at that time with Mr. Nowlan, he confirmed that he would be requesting this legal opinion and would communicate its contents to me in due course.

I should appreciate it if you could let me know where this matter stands at the present time.

Yours sincerely,

Signed by
A. M. HENDERSON,
Auditor General.

J. Gear McEntyre, Esq.,
Deputy Minister of National Revenue—Taxation,
Ottawa.

On May 10, Mr. McEntyre replied as follows:

[*Exhibit "D"*]

10th May, 1962.

Mr. A. M. Henderson,
Auditor General,
Justice Building,
Ottawa.

Dear Mr. Henderson,

This will acknowledge your letter of the 8th instant in which you inquire about certain head office income tax collection files to which your officers have been refused access. My minister has been away for the last two weeks and I am leaving on a holiday tomorrow. However, I expect that the minister will be back towards the end of next week and I will ask my assistant deputy minister, Mr. D. H. Sheppard, to take the matter up with him on his return.

Yours truly,

J. G. McEntyre,
Deputy Minister (Taxation).

After waiting for four more months, I wrote to Mr. McEntyre again on September 11, as follows:

[*Exhibit "E"*]

Ottawa, September 11, 1962.

Dear Mr. McEntyre,

Since receiving your letter of May 10th last I have been hoping for word from you or Mr. Sheppard about certain head office income tax collection files to which my officers were refused access in the first few days of January 1962.

I should appreciate it if you could let me know where this matter stands at the present time.

Yours sincerely,

Original signed by
A. M. Henderson.

Mr. LEWIS: What is the date of that letter?

Mr. HENDERSON: The date is September 11, 1962, sir.

On September 13, I received the following reply from Mr. McEntyre:

[*Exhibit "F"*]

13th September, 1962.

Mr. A. M. Henderson,
Auditor General,
Justice Building,
Ottawa.

Dear Mr. Henderson,

This will acknowledge your letter of the 11th instant in which you inquire about certain head office income tax collection files to which your officers were refused access in the first few days of January, 1962.

My new minister, the Honourable Hugh John Flemming, has been away from Ottawa a great deal since his appointment to the Department of National Revenue but I will speak to him about this matter when next I am able to see him.

Your faithfully,

J. G. McEntyre,
Deputy Minister (Taxation).

A little less than a month after that on October 3, to be precise, I had a meeting with Mr. Nowlan in connection with my staff shortage, a matter on which he has kindly been giving me advice and assistance. We did not discuss the denial of access matter but before I left I asked him if he had received the legal opinion, since it was important that I know this as I was engaged in writing my 1962 reports to the House of Commons. Mr. Nowlan said that he thought the opinion had been received but had been mislaid and that he would look into the matter.

In accordance with our standard practice in the case of all comments affecting all departments under consideration for inclusion in the Auditor General's report to the House of Commons each year, I sent Mr. McEntyre last November a copy of the draft comment now known as paragraph 95.

Mr. McEntyre wrote to me about it on November 19. Quite properly he questioned an inference he felt this first draft contained that his department's collection methods could be improved. My officers and I had not intended this, and we immediately corrected our text.

Now, to sum up: this is, then, the practice the Auditor General's office has followed for the past 16 years, ever since one of Mr. McEntyre's predecessors in office facilitated it in 1947.

For the reasons I have given, neither my officers nor I felt it necessary to ask the law officers of the crown for any opinion on the point at issue.

I should have liked nothing better than to receive the legal opinion before my report was required by law to be tabled. I consider that I took every step I could possibly take to obtain this legal opinion or otherwise to resolve the problem. It is a matter of personal regret to me that my efforts were unsuccessful. Consequently I felt it to be my duty to report the matter to the House of Commons. That concludes my testimony.

Mr. BENSON: May I direct a question to Mr. McEntyre? Do you have legal officers within the Department of National Revenue?

Mr. McENTYRE: Yes, sir.

Mr. BENSON: Do you ask them for legal opinions in this regard?

Mr. McENTYRE: I do not believe I do.

Mr. BENSON: It seems rather an unusual procedure, if you were to get legal opinion from someone, that we still have not got it.

The CHAIRMAN: May I suggest you question Mr. Henderson, because Mr. McEntyre will be giving his testimony shortly, and I think we are anticipating it.

Mr. MACDONALD (*Rosedale*): Have all collection and assessment files been refused, or just these three?

Mr. HENDERSON: No sir, nothing else has been refused. Mr. Cheney will tell you that he is presently engaged in such work at Halifax right now.

Mr. MACDONALD (*Rosedale*): You have been given full access to assessment information?

Mr. LEWIS: I find myself a bit at sea. Do I understand you to say that the Department of National Revenue used the three instances with which we are concerned to question the right of your office to examine any files at all, or were they at all linked to these three files?

Mr. HENDERSON: That is right; in the normal course they would have come to me; but when they were denied to me, as I have explained I telephoned to Mr. McEntyre and then spoke to the minister in the chain of events which I have described to you.

Mr. LEWIS: Perhaps I have not made my question clear: did you get the impression that the legal opinion which Mr. Nowlan was seeking was an opinion as to whether those three specific files might properly be made available

to you, or was it an opinion on whether any files could properly be made available to you?

Mr. HENDERSON: The impression I formed was the question whether any files could be made available to me, and that was the reason I took such a serious view.

Mr. SMITH (*Simcoe North*): It was then these three files which made you raise the matter?

Mr. HENDERSON: Exactly.

Mr. WINCH: But it does not stop you from seeing any other file, and in examining other files?

Mr. HENDERSON: No sir.

Mr. OLSON: When was the direction given to refuse access? Have you any knowledge of that?

Mr. HENDERSON: It was given in the head office of the taxation division in the early days of January last year. In the normal course, the files were being sought, and I believe that Mr. McEntyre himself explained that they were not to be made available to us.

Mr. McENTYRE: That is right.

Mr. LEWIS: May I ask Mr. Henderson if prior to 1961 the treasury board had ever been asked to withhold payments?

Mr. HENDERSON: Under similar circumstances?

Mr. LEWIS: Yes.

Mr. HENDERSON: Oh yes, it is a fairly common practice, I think. We have seen this before upon occasion.

Mr. LEWIS: You have the dates when this was asked of the treasury board and the treasury board refused?

Mr. HENDERSON: I think you are speaking of treasury board minutes wherein they direct that certain moneys be withheld and applied; where money is owed to the crown, and they feel it can be applied they are very efficient in the way they follow it up.

Mr. SMITH (*Simcoe North*): It is common collection practice.

Mr. HENDERSON: Exactly, yes.

Mr. LEWIS: I would like to find out the time sequence.

Mr. MCCLEAVE: Are there not other members who have questions to ask before Mr. Lewis?

The CHAIRMAN: I have Mr. Lewis, Mr. Olson, Mr. Muir on my list.

Mr. OLSON: The main point is whether or not there were only three files where the treasury board approved the withholding of amounts. Is this the total of number of files where this was done, or were you given access to all the other files, if there were other files?

Mr. HENDERSON: We were given access to all the other files that we asked for.

Mr. OLSON: But in this year were there other files wherein the special amounts were approved to be withheld?

Mr. HENDERSON: Yes, I expect there would have been more, because it is not an uncommon practice.

Mr. MUIR (*Lisgar*): Since departmental action with respect to each individual is made available to you, Mr. Henderson, is it your opinion that this is an interpretation of what constitutes a personal file and a departmental file, in the case of these people?

Mr. HENDERSON: I am afraid I do not follow your question.

Mr. MUIR (*Lisgar*): I understand, when you file your income tax return under the Income Tax Act, it is filed with the idea that it is secret. Are you looking for an interpretation of whether it is legal to look into the personal files as against departmental files, which your Financial Administration Act allows you to do. Can you see any difference between a personal file and a departmental file?

Mr. HENDERSON: No. As I have stated, under section 66 of the Financial Administration Act, I think I have complete right, and am entitled to free access to all records, and to all files. I think that is what it says.

Mr. MUIR (*Lisgar*): You have said, I believe, that you have access to every personal income tax file.

Mr. HENDERSON: Yes sir, as I have explained, for the past 16 years. But I have a staff of only three while Mr. McEntyre has 2,500 assessors, therefore we are naturally limited.

Mr. LEWIS: I want to find out the time sequence. Was there any interval of time between the date on which these three files were asked for and the time the people concerned were told that they could not have them?

Mr. HENDERSON: Mr. Cheney, would you answer that question.

Mr. CHENEY: The very same day.

Mr. LEWIS: Did you give anyone notice ahead of time that you intended to ask for these three files?

Mr. CHENEY: No, it was a matter of routine to pick them up. Normally we would have gone to the person that handled these files and asked for them and would have received them. We were directed to the deputy in this instance.

Mr. LEWIS: Does that mean in this case you asked for these three files and you were told: "see the deputy", and he said: "you cannot have them". If that is the case there must have been some note on these files that they were not to be given to you.

Mr. SMITH (*Simcoe North*): Now, now, Mr. Lewis, that is leading; you are not giving evidence really.

Mr. LEWIS: I am trying to find out if that is the impression.

Mr. CHENEY: I understand the files were on the deputy's desk at the time.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Was there any special reason given for the refusal to produce these three files?

Mr. HENDERSON: No, other than the one that I have given and which the minister gave to me, that he was questioning my right of access.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And that was the only reason?

Mr. HENDERSON: Yes.

Mr. PUGH: Mr. Henderson, in going over the practice followed for the last 16 years you stated that the normal practice was that you would ask for a file and get it. Mr. Long stated there were only three officers available to go and make these spot checks. He mentioned the fact that you had a shortage of staff; that there are 2500 assessors, and that the normal practice was that they pretty well banked on these assessors—and they do, because in an assessment they do a good job. However, he said the only time, because of this double check, they poured anything into an assessment was when the file had been brought to their attention for such purposes as collection. Is that correct?

Mr. HENDERSON: Yes.

Mr. PUGH: Now, going into assessment, I take it that they have been doing that over the years on the basis he mentioned. Have you any figures which

would indicate in connection with the reassessment how much more the taxpayers had to pay or was there any change in the actual assessment that had been previously made?

Mr. HENDERSON: No, I do not think we would have any figures as to the amount. We turn over such findings to the departmental officials and they take the whole thing from there. We have no contact whatsoever with the taxpayers.

Mr. PUGH: But you do with the file?

Mr. HENDERSON: And we do not keep any statistics on these. Letters covering our examinations have been addressed from time to time to the deputy ministers outlining or giving our comments in connection with their internal procedures and regarding some of our findings.

Mr. Long, would you care to say a word on that? I think you know of instances where letters have gone, in fact, to the deputy minister to this effect.

Mr. LONG: Mr. Chairman, I think I tried to make it clear that in recent years anything we have found has been in the nature of a very exceptional error or something like that; there was nothing that was not cleared up right on the spot by the chief assessor of the district.

Mr. PUGH: I want to make clear how far you did go in checking the actual assessment.

Mr. LONG: It simply would be a scrutinizing of the assessment. Obviously we could not go into a corporation and start questioning the basis of depreciation or some of the other complicated tax matters that are there. One thing that I remember we did find was a case where investment income had been under added on the return by \$1,000. There was just a brief glance at the file. We drew it to their attention and it was corrected. One could not assume that as indicating any slackness. It was a simple error.

Mr. PUGH: I am not saying there was any slackness at all. In fact, I take your word and that of Mr. Cheney for it that the tax department has done very well. However, what I am getting at—forgetting corporations—is this: in connection with personal income tax files, and as a result of your checking their assessment, has there been any reassessment on these personal income tax files?

Mr. LONG: There have been isolated cases such as the case I mentioned in the amount of \$1,000. There was a \$1,000 mistake in investment income.

Mr. PUGH: Was that in connection with a corporation or a private individual?

Mr. LONG: A private individual.

Mr. PUGH: Now, that is one thing, and this is the practice that has gone back over the last 16 years. Let us go back about four or five years. Have you found any need for reassessment of any of these personal income tax files?

Mr. CHENEY: Oh yes, sir; that would happen, not infrequently, but very likely, and by the time the reassessment took place we would be on the way somewhere else. It was brought to the attention of the chief assessor and he would in the normal course of events have it reassessed. Some of these have taken place while we were in the district.

Mr. PUGH: I am trying to get down to the number which you might run into.

Mr. CHENEY: I could not tell you. They are taken up individually and they do not even appear after that because we consider the matter as corrected. Unless there was a condition there would be nothing. Unless we came across dozens of these things one after the other, and there seemed to be a fault, that would never happen. These cases would be individual ones and we would pick

up maybe one in a district—possibly two or three—for different reasons. However, it is not common and we could not report on it. Two out of thirty, forty of fifty thousand files we would not consider a bad condition.

Mr. PUGH: I just wanted to get this cleared up. When you go into a taxation office how many files would you check—and I am referring to personal rather than corporation files, and of those which you do check how many mistakes in assessment have been made where you feel there should be a reassessment.

Mr. CHENEY: I could not give you the exact figure but it would be very rare, and the number that we would check would depend entirely on time in the district and the intake of income returns.

Mr. PUGH: Is it fair to say that your efforts are not bent toward reassessment at all but merely to an audit check.

Mr. CHENEY: That is right.

Mr. HENDERSON: That is correct.

Mr. McGRATH: If I might interrupt, Mr. Chairman, would it be appropriate at this time to hear Mr. McEntyre's testimony so that we might be in a better position to direct questions to both Mr. McEntyre and Mr. Henderson.

The CHAIRMAN: Perhaps it would; however, these gentlemen have indicated their desire to ask questions.

Would you proceed to ask your questions, Mr. Smith?

Mr. SMITH (*Simcoe North*): Mr. Chairman, I have made my remarks; I stated words to the effect that Mr. Lewis was leading the witness around.

The CHAIRMAN: Would you proceed, Mr. Benson?

Mr. BENSON: First of all, with regard to items mentioned in the treasury board report minutes, do you always ask for supporting documents. I notice this item came to your attention because it was mentioned in a treasury board minute. Do you always ask for supporting documents where this happens?

Mr. HENDERSON: As I have already said, we have the standard auditor's interest in the collection procedures, and when you are looking at accounts receivable in any business I think you naturally ask questions of the management as a result of which they invariably will produce letters showing the state of affairs and so on—and it would be in that connection.

Mr. BENSON: That is fine. Now, my second question is this. Does the Department of National Revenue have an internal office audit?

Mr. HENDERSON: Perhaps Mr. McEntyre would like to speak to that. It does.

Mr. BENSON: Do you have contact with this internal audit staff? Do you talk to them.

Mr. HENDERSON: Yes.

Mr. LONG: We receive copies of all reports of the taxation inspection team. They have a large team which goes into one district office at a time and we receive copies of their reports.

Mr. BENSON: But their reports were not mentioned in these cases because they were handled through treasury board?

Mr. LONG: In connection with these particular cases no, we have not seen the reports. As a matter of fact, I could not tell you now where the returns were filed for these particular cases, and this is one reason we needed the file at head office. We needed to find out where the account was. It could be in any district office.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Long mentioned he and his staff examined the district offices in a cycle; could he tell us how often they get to any specific office? Mr. Cheney is now at Halifax; how long is it since he was there before?

Mr. LONG: We aim at a cycle of four to five years but when staff shortages interrupt this we do not always reach that objective.

Mr. CROUSE: You base your claim to assess these files on the Financial Administration Act and, undoubtedly, the minister bases his claim to refuse you access on the Income Tax Act; in your opinion is there a conflict between the two acts of authority?

Mr. HENDERSON: Well, Mr. Crouse, I am not a lawyer; I am an auditor, and as I mentioned, I deferred to the minister's view that he thought an opinion should be obtained—and I am still most interested in finding out what that opinion says.

The CHAIRMAN: Would you proceed Mr. Winch?

Mr. WINCH: I have one question, Mr. Chairman. I would like to ask if when you receive the minutes of treasury board and you note any reference to a collection or refund do you then take all those cases or do you just make a selection?

Mr. HENDERSON: We use our best judgment as to those we will follow-up from an audit standpoint; if it is an open or shut case, if there is any question as to the legality of it, the steps being taken and so on, the supervisor responsible for the department looks over the treasury board minutes and inquires into them in the department. You see, copies of these minutes come to us.

The CHAIRMAN: Gentlemen, may I suggest at this time we proceed with Mr. McEntyre, the deputy minister of National Revenue (Taxation Division).

Mr. Cowan, is your question very pressing at this time?

Mr. COWAN: Mr. Chairman, Mr. Henderson read to us a memorandum dated 1947 which has proved very beneficial to his staff in the work they are doing throughout the various government departments. However, can you tell us whether there were any legal precedents established in 1941-42 in connection with the action of the Department of National Revenue against the former Bennett cabinet in collecting income tax that would be helpful to him in these cases?

Mr. HENDERSON: I am not sufficiently familiar with the history back in those days. Perhaps Mr. Stevenson would assist you in that connection.

Mr. STEVENSON: I do not remember these cases being considered in connection with this matter.

Mr. COWAN: I have one further question. You mentioned you had submitted a draft copy of your paragraph 95, I think you said, to Mr. McEntyre. I happened to notice at the moment you were speaking that your report is dated November 19th, 1962.

Mr. HENDERSON: That is correct.

Mr. COWAN: And it is stated that Mr. McEntyre answered you under date of November 19th, 1962. Was your reply held up awaiting that reply.

Mr. HENDERSON: That is a good question Mr. Cowan. The report is dated then but the type inevitably does not get locked. In this case I think it was a week before Christmas before the type was locked. I had made the correction before that date, before the type was locked.

Mr. COWAN: The report was not held up awaiting a comment to come back?

Mr. HENDERSON: No, but I was hoping to get it resolved before the type had to be locked.

The CHAIRMAN: Would you proceed. Mr. McEntyre?

Mr. J. GEAR McENTYRE (*Department of National Revenue, Taxation Division*): I think it should be noted first of all, that we in the taxation division consider we have very pleasant relations with the Auditor General and his staff. We in our office know him well. They always have been kind enough to send us copies of the report of their notes they make with respect to the operation of the particular district office they have visited.

I was pleased to hear Mr. Long say that our operations were satisfactory. We in the taxation division perhaps would not agree for various reasons, including the reason that the Auditor General has raised, which I understand is the next piece of business here, namely that we do not have sufficient staff to do the thorough job we would like to do. But, we have been trying to get along as best we can.

We have our own international inspection group which gets around to the district offices and does a rather thorough inspection once every two years as well as perhaps a visit in between to ensure that any improvements that have been recommended on the large inspection would have been implemented by the district office officials. Copies of these reports which are made by our own internal inspection group are provided to the Auditor General because we feel it may help him in the audit which he will be making from time to time. So, our relations have been very good with the Auditor General.

Now, with respect to our accounts and files, these are all kept in the district offices. The taxpayers' returns are filed there. The staff which examines these returns and makes the assessments are there. The amounts which are found to be due are set up on account cards in the district office. Each district office has a staff of collection officers which reviews these accounts on a periodic basis to make sure proper steps are taken to enforce collection. And, where there is correspondence that the taxpayer did owe money with respect to the payment of his account correspondence and documents of that kind are kept in collection files in the district office.

There are certain procedures which require a reference of collection matters to head office, such as the obtaining of exchequer court writs, the procedure used to offset amounts that may be due to a taxpayer by the government under the sections of the Financial Administration Act which provides for this offset. And when reference is made to head office to require this assistance a head office file is opened which would have the relevant documents in it.

Now, with respect to this particular case which came up last January, I was advised one day that the Auditor General had requested to see the head office collection file for three individuals. This was considered by the staff who kept these files as being a rather extraordinary request, and for that reason it was referred to me. I looked at the files and found that those files—first of all, there had been a submission to the treasury board for an order to attach moneys payable to these taxpayers by the crown. I also noticed that there was some personal correspondence between the minister and these particular individuals. So, for that reason, I instructed the staff to send the files to me, and I told Mr. Cheney that I had the files, and if he insisted on seeing them, that he could come and see me. Mr. Cheney came to see me and I explained the situation; that these files contained copies of correspondence of a personal nature between the minister and individuals, and for that reason I hesitated to release them to him, without first speaking to the minister.

When I took the matter up with the minister, he was a little concerned that the Auditor General should be interested in his personal correspondence, and he asked me whether I thought there was any ground on which he could

refuse it. I told him there was perhaps an argument which could be made on the basis of secrecy provisions of the Income Tax Act, but that there might be some conflict with the provisions of the Financial Administration Act which gave the Auditor General certain powers. The minister then instructed me to hold up releasing these files to the Auditor General until he had had an opportunity to consider it. There was a suggestion that he might refer the matter to the Department of Justice for an opinion, but I received no instructions to proceed in that matter of requesting an opinion from the Department of Justice. And as far as I am concerned, no request for such an opinion was made.

It is possible that the minister might have made a request on his own. But there was no suggestion that this was done as a test case or anything of that kind. It was a request that we received from the Auditor General which was a little out of the ordinary. So it was for that reason it has been treated as a special case to be dealt with upon its merits. I do not know if there is anything else I can add at this moment, but I would be very glad to answer any questions.

The CHAIRMAN: There are several questions, and I am sure you can add a lot to it.

Mr. FORBES: Since these accounts have been in arrears since 1954, was there any provision ever made to get possession of these documents from the former minister of national revenue?

Mr. McENTYRE: No. This was the first request received from the Auditor General with respect to these particular head office files.

Mr. FORBES: Is it customary for taxpayers to be anywhere from six to eight years in arrears in their taxation payments?

Mr. McENTYRE: No, it is not customary, but it does happen.

Mr. FORBES: How did these people happen to be so far behind, from 1954 to 1962, before the matter was brought to light?

Mr. McENTYRE: There are a number of reasons. For example, people might suffer illness, which strikes them just at the time their tax is due. So it may take them longer before we can recover the money; and sometimes the taxpayers returns are examined after a number of years and it is necessary to reassess them and go back a number of years and to recalculate the tax which might have been due for a number of years. That would mean that the account for a certain number of years might be overdue for quite a long time.

Mr. FORBES: In other words, you knew that these accounts were in arrears, yet you never attempted personally to examine them?

Mr. McENTYRE: These accounts are all kept in the district offices. We have our inspection staff who go around and check the district offices to make sure that accounts which are overdue for any length of time are being properly attended to by the district office staff. That is the way we keep a check on our collection picture.

Mr. McILRAITH: Paragraph 95 refers to these three files, in respect of income tax for the years 1954 to 1960. Do you know now when the income tax for these years was assessed?

Mr. McENTYRE: No, I would have that information here. That would be in the district office.

Mr. McILRAITH: You do not know when these were assessed?

Mr. McENTYRE: The report which would come from the district office collection officer would request action by the head office collection group, such as exchequer court action, or this attachment of a debt due to the crown, and it would set out the date of assessment and the years for which they were due.

Mr. McILRAITH: Yes.

Mr. McENTYRE: So that we would rely on this report which comes from the district office to tell us that information.

Mr. McILRAITH: My question is this: If you knew that these assessments were made, do you know now, or can you tell us now when these assessments were made?

Mr. McENTYRE: I do not have the information with me, and I would have to refer to the district office for it.

Mr. McILRAITH: Thank you.

Mr. MACDONALD (*Rosedale*): My understanding of the explanation given by the Auditor General's staff is that from time to time there were references to this type of information apart altogether from the status of the interests which might be involved. Why was this particular request considered extraordinary on the part of your staff? In other words, the gentlemen have said they have made these requests from time to time and that these come in so why would this particular one be considered as extraordinary by your staff?

Mr. McENTYRE: The staff found it was extraordinary that the Auditor General should ask for head office collection files. That apparently was not a request which was usual. I think the three particular files had correspondence on them, or copies of correspondence on them, between the minister and the individuals which was marked personnel and confidential. To that extent they felt that if these files were to be given to the Auditor General, the minister should know about it.

Mr. MACDONALD (*Rosedale*): I gather from what you said that you had formed the opinion yourself. You are a lawyer?

Mr. McENTYRE: Yes, sir.

Mr. MACDONALD (*Rosedale*): You formed the opinion yourself that there was a matter of legal doubt on the wording of the two statutes, whether or not information was to be given, and you said therefore, that in the case of these three files, and in respect of the assessments in them, no further information should be given until the question of law had been resolved.

Mr. McENTYRE: Apparently my predecessor in 1947, Mr. Brown, had come to the conclusion that the Auditor General should be permitted to see any of the documents in our possession. So before I changed that instruction I believed the matter should be given some consideration.

Mr. MACDONALD (*Rosedale*): Would it not have been, perhaps, that with respect to such an important change of policy on a matter of importance, an opinion should be secured quickly, so that the policy could be established quickly one way or the other?

Mr. McENTYRE: Well, the Auditor General had been doing this for 16 years. I did not think it was of great importance that a change should be made. The system seemed to work very well as it was. Now, with respect to these particular individual files, I did not consider that there was any great importance in the matter. It was a special case, a question of whether or not correspondence of a personal nature which the minister had written should be made available to the Auditor General. I thought that was something special.

Mr. MACDONALD (*Rosedale*): Would there be any distinction between correspondence between an ordinary departmental officer, and that of the minister? In both cases is it not really personal to the individual taxpayer, whatever relation to the crown there is? Why does it become any more personal when the minister is writing, than a legal officer or an assessor?

Mr. LEWIS: He is your boss!

Mr. McENTYRE: Well, I discussed it with my minister and he seemed concerned that the Auditor General should see this correspondence. I do not think that he came to the conclusion that he should definitely say no, but he wanted certainly to consider it further. My instructions were simply to say that it was under consideration in his office.

Mr. MACDONALD (*Rosedale*): I have a final question: The question was raised earlier whether the legal division of the Department of National Revenue might have decided this question. Would I be right in saying that any question of law arising with respect to the jurisdiction between the departments is generally referred to the Minister of Justice, as opposed to being decided internally within the department?

Mr. McENTYRE: I would say that was correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have referred to the head office collection files. My question is: How did these three particular files come to be in your office rather than in the local office of your department?

Mr. McENTYRE: The local office had written to us at head office, because they recommended that we take advantage of this proviso in the Financial Administration Act to attach moneys due to the taxpayer by the crown. And that explains the opening words of this paragraph 95.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, with respect to another matter: You told us that you received no instructions to seek a legal opinion. You suggested that it might be possible that the minister himself was seeking one. What is the customary procedure? Would it be customary procedure, if the Department of National Revenue wanted a legal opinion, for you to be the person to seek it?

Mr. McENTYRE: Yes, it could be done both ways, and it has been done both ways, to my knowledge: either departmental officials would write directly to the deputy minister of justice and request an opinion, or perhaps departmental officials would draft or prepare a letter for the minister to write to the Minister of Justice asking for an opinion. So it is possible that the Minister of National Revenue might write directly to his colleague, the Minister of Justice, asking for an opinion.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would it be usual for the minister to write directly without going through his department?

Mr. McENTYRE: I would think that all three procedures would be usual. I do not think there is any set rule which has been followed.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have one final question: It is usual to include what you have described as personal correspondence from the minister in a file of this sort?

Mr. McENTYRE: Where a departmental official would have drafted a letter for the minister's signature, it would be usual to retain a copy for the departmental file.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Was this correspondence drafted by departmental officials?

Mr. McENTYRE: Yes, sir.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): So then it was not really the minister's personal correspondence at all?

Mr. McENTYRE: It was drafted for the minister's signature to be sent by the minister, and it was marked personal and confidential.

Mr. SCOTT: You said in your evidence that this was an extraordinary request, the request for these files. Is that correct?

Mr. McENTYRE: Perhaps I exaggerated a bit when I said it was extraordinary. Perhaps "unusual" would have been a better word to use.

Mr. SCOTT: The reason was that this was a request by the Auditor General for head office collection files?

Mr. McENTYRE: Yes sir.

Mr. SCOTT: Have there ever been other cases where the Auditor General has requested access to head office collection files?

Mr. McENTYRE: Not to my knowledge.

Mr. SCOTT: Who would make the judgment decision official to refuse access?

Mr. McENTYRE: The decision in this case was made by a clerk in charge of the files who, finding it unusual, referred it to her supervisor, to see what he thought about it; and he thought it sufficiently unusual to refer it to me to see what I thought about it.

Mr. SCOTT: Why would a clerk think it unusual to make this information available?

Mr. McENTYRE: I suppose the clerk might not have been accustomed to dealing with the staff of the Auditor General, and was not quite sure how this should be handled.

Mr. SCOTT: In your judgment was the reason access was refused that of the presence in these files of this personal correspondence from the minister?

Mr. McENTYRE: I think that would certainly be a factor.

Mr. SCOTT: Is it customary for a clerk to read through the files to see if there is anything of this nature to cause them to refuse access?

Mr. McENTYRE: I would think in the ordinary course, not.

Mr. SCOTT: Would there be any doubt? You actually saw these files?

Mr. McENTYRE: Yes, sir.

Mr. SCOTT: Was there any recommendation on the files to refuse access to them if requested?

Mr. McENTYRE: No, there was no notation of any kind.

Mr. OLSON: I would like to ask, Mr. Chairman, what steps did you rely on to refuse access to these files in view of section 66 of the Financial Administration Act?

Mr. McENTYRE: I do not think we came to any definite conclusion as to what legal authority there was to refuse access to these files. I think we looked at the section in the Income Tax Act which provided for secrecy, and we considered the fact that many ministers of national revenue over the years had considered that the disclosure of personal income tax information was contrary to public policy, and that it was recognized so by the courts. We considered the long-established custom that income tax files and income tax information is secret, and that taxpayers who are obliged to provide the tax department with information of a very personal nature have always been protected in that that information was only used for enforcement and administration of the Income Tax Act. And I think there may have been a feeling that there was at least an arguable case to refuse the information.

Mr. OLSON: But surely, inasmuch as this section of the act was such that the Auditor General is entitled to free access to all files, documents, records, and so on, you must have thought of some other act which would take precedence over this part of the Financial Administration Act, otherwise, notwithstanding any act, as it says.

Mr. McENTYRE: I think, having in mind the correspondence which the Auditor General has read already this morning—I do not think we came to the conclusion that the Auditor General was not entitled to this information, but it was considered that the matter should be carefully considered before acquiescence was given to his examining these records.

Mr. GRAY: The deputy minister said that he felt there was an arguable case. Now, if that was the situation, why did you not, yourself, request an opinion from the Department of Justice at the time?

Mr. McENTYRE: Well, as my minister had the matter in hand, and he had also indicated that he was going to ask for an opinion from the Department of Justice, I did not want to duplicate his work.

Mr. GRAY: You must have been aware of the fact subsequently that nothing had been obtained for some months. Did you check with the minister to see what would hold up the opinion?

Mr. McENTYRE: I discussed it with him from time to time, and he said it was in hand.

Mr. GRAY: In whose hands?

Mr. McENTYRE: His hands.

Mr. GRAY: Were you under the impression that the minister had it?

Mr. McENTYRE: If he has, I have not seen it.

Mr. GRAY: Have you ever seen a written request for this opinion?

Mr. McENTYRE: No.

Mr. GRAY: Do you know if one exists?

Mr. McENTYRE: No, I do not know if one exists.

Mr. SMITH (*Simcoe North*): Mr. McEntyre, in your answer to Mr. Scott you indicated to the committee the reason the clerk in charge of these head office collection files brought it to your attention was that such files never had been requested before and not because of the names that were involved in these files. Is that correct?

Mr. McENTYRE: I would have to ask the clerk directly if that was so. But that was certainly the way it was brought to my attention.

Mr. SMITH (*Simcoe North*): That was your opinion?

Mr. McENTYRE: Yes.

Mr. SMITH (*Simcoe North*): How do files become head office collection files? Is it because of the length of the delinquency, the size of the amount to be collected or because of the unusual steps that are needed to collect?

Mr. McENTYRE: Files are opened at head office with respect to these cases where a procedure is required which ordinarily emanates from head office, such as action through the exchequer court or those submissions to treasury board to attach moneys due by the crown, which procedures have to be undertaken at Ottawa. And then, in addition, we require the district offices to report to us large outstanding accounts which have been outstanding for some time in order that we can keep track of the larger ones and follow them up directly from head office.

Mr. SMITH (*Simcoe North*): When collecting income tax from taxpayers, without reference to treasury board, do you have authority to make an agreement and say: we will accept \$250 a month payable from the taxpayer's employer, the taxpayer's debtor.

Mr. McENTYRE: Well, we certainly do it; I do not know what the authority is. However, where the taxpayer is earning only so much and it is obvious that the total amount cannot be paid in one lump sum there seems to be no alternative but to make a reasonable arrangement.

Mr. SMITH (*Simcoe North*): It is not an uncommon procedure.

Mr. McENTYRE: No; it is a very usual procedure.

Mr. SMITH (*Simcoe North*): I wish to direct a question now to the Auditor General relating directly to what I have been asking. How often in the last two or three years, or the last five years, or whatever it is, have head office collection files been drawn by the Auditor General's staff.

Mr. HENDERSON: I would have to ask Mr. Long to answer that question for you.

Mr. LONG: We normally do not keep a log of these things. I can remember one particular case in which the collection file was referred to.

Mr. SMITH (*Simcoe North*): From head office?

Mr. LONG: Yes. These are other files which are called from head office.

Mr. SMITH (*Simcoe North*): I was confining myself to the discussion of collection files submitted; is there anyone on your staff who would be able to say how many head office collection files had been drawn—and then I will hear the explanation for other files.

Mr. LONG: There is no reference kept. No one could say offhand. There have been a few cases and I know of one.

Mr. SMITH (*Simcoe North*): Who would be the person most likely to draw them.

Mr. LONG: Mr. Cheney or one of his assistants.

Mr. HENDERSON: Perhaps Mr. Cheney could add something.

Mr. CHENEY: This was not by any means a precedent. I understand or believe, from memory, that there was more than one name on the order-in-council and, therefore, the only way we could determine what district to look in for the file was to find out from head office where these people lived, and that was primarily the reason we went to the collection file. We could have obtained the balance of it from the district, but we did not know the district.

Mr. SMITH (*Simcoe North*): You could have obtained the information you required from the district office without the head office file if you had known which district?

Mr. CHENEY: In the normal course of events. An explanation of that is that these things come through from time to time and we set them aside and on the next visit to that district we look at them.

Mr. SMITH (*Simcoe North*): So is it possible then that a request for the addresses of these people mentioned in this particular order-in-council would have provided you with the necessary access to information back in the district office.

Mr. CHENEY: It is possible.

Mr. HENDERSON: May I point out that in calling for the file it naturally would be a little more than just ascertaining the addresses; this was a case of unpaid taxes going back to 1954 and I think it not unusual for any auditor to wish to see correspondence and some of the reasons for such things.

Mr. SMITH (*Simcoe North*): In light of that answer do you consider that it was in anyway improper, that the assessment was improper, or were you only and vitally concerned with the methods of collection.

Mr. HENDERSON: I would say we were directly concerned with the methods of collection, as is referred to in note 95. The tax in question had been unpaid since 1954. We could have obtained a ready answer from those files without the necessity of going back to the field.

Mr. LEWIS: Mr. McEntyre, I understood you to say that what made this case unusual was that the file requested was a head office collection file. Is that right?

Mr. McENTYRE: That was one of the factors that made it unusual.

Mr. LEWIS: I understood you to say it was the first factor that made the clerk eventually reach you.

Mr. McENTYRE: Yes, I imagine that was the first. The clerk was not accustomed to having requests of that kind come from the Auditor General and she did not know how to deal with it exactly and she left it to her supervisor.

Mr. LEWIS: Let us leave "her" out of this; she is making a clerk's decision. Let me ask you, Mr. deputy minister, what in logic or in law would differentiate between a collection file located in an Ottawa office and a collection file located in a Halifax, Vancouver or Toronto office, as far as the application of the Financial Administration Act is concerned?

Mr. McENTYRE: I would say there was no distinction. In fact, if the Auditor General is entitled to see a collection file in the district office there should be no reason why he should not see a collection file at the head office, provided the minister is not involved in the file and provided the minister is satisfied to have the Auditor General see it. But, where the minister, who is the top man in the department, has a vital interest in the file, in that there are copies of personal correspondence which he has written and which he feels he would prefer not to have divulged to the Auditor General, then I imagine the minister has the right to give the matter consideration.

Mr. LEWIS: Are you suggesting, Mr. McEntyre that if section 66 of the Financial Administration Act makes that file available to the Auditor General by the law of parliament the minister may keep the file back because there is a letter in there which he may not want the Auditor General to see? Is that the burden of your suggestion as deputy minister of the department and as a lawyer?

Mr. McENTYRE: I think I said at one time there might be an arguable case for the minister to hold that in law he was not obliged to give that file.

Mr. LEWIS: That file?

Mr. McENTYRE: That file.

Mr. LEWIS: That is a point; what you are arguing or suggesting to this committee is that even though you are ready to accept the proposition that the Auditor General is entitled to see any file, and that there is no difference between files in Ottawa and files in a district office—as I say, even though you are ready to accept that, not questioning that, you are suggesting to this committee it would still be within the power of the minister to discriminate between one file of one taxpayer and one file of another taxpayer because in one of the files there was some letter that he did not want to divulge to the Auditor General. That is what you are suggesting, is it not?

Mr. McENTYRE: I think I said if the Auditor General is entitled to see the collection files in the district office it is difficult to draw a distinction between the collection files—

Mr. LEWIS: Impossible, is it not?

Mr. McENTYRE: I would not say so.

Mr. LEWIS: You think it is possible to draw a distinction between a collection file in a district office and a collection file in head office from the point of view of section 66 of the act?

Mr. McENTYRE: If there is something in that file which turns that file into the personal file of the minister, I think there is a distinction.

Mr. LEWIS: Well, if that were so, you might be right.

The CHAIRMAN: Have you a question, Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would it also apply to a file in the district office?

Mr. McENTYRE: It would be extraordinary for any personal or confidential correspondence of the minister to be in a district office file.

Mr. LEWIS: You said that one of the occasions where there would be a collection file at head office would be where the account involved was a very large one, or a larger one?

Mr. McENTYRE: Yes.

Mr. LEWIS: And that, I suppose, would be one of the matters in which the Auditor General would be particularly concerned, because it was a large amount; and yet you are suggesting that in that kind of case the file might be withheld from the Auditor General at the minister's whim.

Mr. McENTYRE: I would think it would be the case only where the minister had taken a personal interest to the extent of having personal correspondence on the file; otherwise the head office files would simply be a reflection of the district office files.

Mr. LEWIS: In these three cases were they human persons or were they corporate bodies who were involved?

Mr. McENTYRE: Mr. Chairman, I would not like to get into a situation where, by a process of elimination, I would produce the desired results.

Mr. LEWIS: This is the only question I was going to ask.

Mr. McENTYRE: I think it would be safe to say they were individuals.

Mr. LEWIS: Individual persons?

Mr. McENTYRE: Yes, as against corporations.

Mr. LEWIS: Now, I have a question to ask Mr. Cheney following along the lines of Mr. Smith. Mr. Cheney, have you had occasion to ask for head office collection files before this case?

Mr. CHENEY: Yes.

Mr. LEWIS: And did you get them?

Mr. CHENEY: Yes.

Mr. LEWIS: And was that occasion a year or two ago or was it a long time ago?

Mr. CHENEY: Within the last year or two. I could not be quite definite but within the last year or two.

Mr. LEWIS: Would you be the only one who would be auditing the head office.

Mr. CHENEY: No. My assistants or my staff could ask for a file.

Mr. LEWIS: Do you know whether any of them have had occasion in recent years to ask for a head office collection file.

Mr. CHENEY: They would not ask for one except on my instructions.

Mr. LEWIS: They come to you first.

Mr. CHENEY: Yes.

Mr. LEWIS: So you would know of all those that have been requested and you say you have asked for files.

Mr. CHENEY: Yes.

Mr. LEWIS: Would there be many?

Mr. CHENEY: No. I would think not. As a matter of fact there would be few.

Mr. LEWIS: It would happen only when a special situation arose such as the treasury board decision in this case?

Mr. CHENEY: That would be principally the reason for that.

Mr. BENSON: I may have misunderstood you earlier but I gathered from an answer to a previous question by another member of this committee that you said that head office collection files would not contain the date of assessment as contrasted with the date of the actual assessment of the tax? Did you say that?

Mr. McENTYRE: Yes and I am thinking about that now because in the usual course, where exchequer court action is taken, we do set down the date of assessment and the years assessed—and I am thinking of these particular three files; I looked them over yesterday and I do not believe they do have the dates of assessment in them.

Mr. BENSON: I would have thought this was essential if you were going to take any collection action from head office; that is, to have the date of assessment as contrasted with the taxation year.

Mr. LEWIS: Did Mr. McEntyre not say the district office sent to head office a memorandum containing all that information, including the date of assessment? I think Mr. McEntyre said that earlier.

Mr. McENTYRE: Ordinarily the head office collection files should have a form completed by the district office on which is stated the years involved and the date in which the tax was assessed.

Mr. BENSON: Would you be prepared to give that information to this committee? I am referring to the years involved and the dates of assessment.

Mr. McENTYRE: Yes, I would.

Mr. BENSON: You would have to obtain that information?

Mr. McENTYRE: Yes.

Mr. BENSON: I have one further question. Would you, personally, say that these files became unusual because of the persons involved, the taxpayers?

Mr. McENTYRE: I think they became unusual because of the correspondence on the files.

Mr. BENSON: And not because of the individuals involved?

Mr. McENTYRE: No.

Mr. BENSON: Mr. Chairman, I have a couple of other questions. Was Mr. Nowlan invited to attend this meeting?

The CHAIRMAN: To answer your question yes, Mr. Nowlan was. A notice was sent to his office. However, on Tuesdays and Thursdays Mr. Nowlan has cabinet meetings, as you know. I assume he is at a cabinet meeting now.

Mr. BENSON: I wonder whether, before this matter is finally resolved, we could have a meeting at which Mr. Nowlan would be invited to attend as there seems to be much involvement in regard to whether or not this legal opinion has been sought and given, and we could get that information from him.

The CHAIRMAN: Are you making a request?

Mr. SMITH (*Simcoe North*): Mr. Chairman, I do not think there has been any question but that he intends to attend; however, by the way we have been proceeding this morning it is hardly likely we will reach him today.

The CHAIRMAN: I feel there is no objection in Mr. Nowlan coming.

Mr. BENSON: Could I request that Mr. Nowlan attend a meeting before this matter is resolved.

The CHAIRMAN: If that is the wish of the members of this committee.

Mr. McCLEAVE: We can go farther than your guarded words; you can go to Mr. Nowlan and set up a time which is suitable to himself and this committee and he will be here.

Mr. BENSON: Can you speak for him in that matter?

Mr. McCLEAVE: Yes, I can.

Mr. WINCH: Mr. Nowlan spoke to me yesterday and said he would not be here this morning, but if desired he would appear before the committee at a later time.

Mr. CARON: He said that in the house the other day as well.

Mr. BENSON: I would like to have a formal request put by the committee.

The CHAIRMAN: There is no objection to that. I will see to it that a formal request is sent to Mr. Nowlan for him to appear as soon as he can.

Mr. BENSON: I have one other question. I would like to request the committee to ask the deputy minister of justice for an opinion in regard to section 95. I would like to have the committee prepare such a request for a legal opinion and submit it.

Mr. WINCH: He stated in connection with that letter I mentioned at the beginning that he will decline to advise this committee on the legality of any action.

The CHAIRMAN: I have asked him informally if he would come and do that and he replied he did not feel he should. I think, on request, he would come to this committee and speak for himself.

Mr. BENSON: Alternatively, I would like to move that this committee request that he attend in order that we may question him with regard to whether or not an opinion has been sought and so forth.

The CHAIRMAN: Certainly.

Mr. NOBLE: If the Department of National Revenue were satisfied with the means taken to have restitution of the tax due made by these delinquents why would it be so urgent that the Auditor General see the files?

Mr. HENDERSON: I am sorry but I did not hear the first part of your question.

Mr. NOBLE: If the Department of National Revenue were satisfied with the means taken to have restitution of the tax due made by these delinquents why would it be so urgent that the Auditor General see the files?

Mr. HENDERSON: It is the responsibility of any auditor, I would submit to you, to examine the facts and to see whether the reasons for the delay, and the nature of the action which it is proposed to take are valid. If the files are not made available, then how is he to know that?

Mr. NOBLE: Have you ever had to take this action before?

Mr. HENDERSON: You mean in examining this type of material?

Mr. NOBLE: Yes, sir.

Mr. HENDERSON: We take it every day in connection with all accounts of departments where there are in effect receivables, and of crown corporations. We look at the ledger account of the crown corporation, the amount and length of time of money owed, and we discuss with management the possibility of collection. They produce correspondence files, and other evidence to help us with our work, and in that way we determine the adequacy of their reserves for bad debts.

May I refer you also to my report where, with Mr. McEntyre's kind co-operation, we have set down for the first time the accounts receivable due to the crown for all the departments. If you do not mind looking at page 75 of my report, at paragraph 140, you will see there a summary of accounts receivable, showing the totals given in the departmental sections of the public accounts, together with the totals of the balances receivable in the case of the taxation division as of February 28, 1962.

With Mr. McEntyre's cooperation we have included the taxation division, and you will see there is a total of \$203 million odd outstanding at that date, due to the crown, of which Mr. McEntyre and his officers have established something of the order of \$15.8 million as in the uncollectable category. I am sure you appreciate the responsibility that the auditor has in order to satisfy himself on matters of this kind.

Mr. ASSELIN: Mr. Henderson, you said that the procedure for policy in regard to such requests has not changed, and that you are making use of procedures to examine such files since the three cases under question have been reported, and as something has been said of the unusual nature of the three files in question, I was wondering if you have been informed, since these files have been refused to you, that the reason they were refused was that they contain correspondence from the minister. Are you aware of that?

Mr. HENDERSON: I would have to ask Mr. Long that question. I do not know that we would keep track particularly of it. I must answer you by saying that with the exception of these three files, all other records of the department have continued to be made available to us and are actually being made available to us, today.

Mr. ASSELIN: I am trying to determine what was unusual about these three files which would have caused their refusal, and caused the clerk to consider them so.

Mr. HENDERSON: I do not know, because I did not see them.

Mr. ASSELIN: I agree that you are not in a position to say; but I wonder whether in every file there has been correspondence of a personal nature from the minister, because we have been informed this morning that the reason the clerk considered this as unusual was the fact that there was correspondence there from the minister. So I was wondering whether in other files there has been correspondence from the minister?

Mr. HENDERSON: I would like to submit to you that it perhaps depends on the definition of "personal". I believe that all files in the income tax department come under the personal category, and come under the heading of private and confidential information, and that proper regard should be given to them all on that basis, because they are private affairs. It might happen that a certain taxpayer may know the minister—he may even call him by his first name—and his letters might be of a little more personal type than those of anyone else. But I am sure that the files do not contain a great deal of this sort of correspondence.

Mr. ASSELIN: Such correspondence may be found on any file. I do not understand the crisis in this case.

Mr. HENDERSON: I find it rather hard to understand, too.

Mr. ASSELIN: I was under the impression that these files were on your desk when they were requested, Mr. McEntyre?

Mr. McENTYRE: Yes, sir.

Mr. ASSELIN: I am a little confused by the testimony of Mr. Henderson and yourself, because I understood from your previous testimony that they came to your desk at the request of the clerk, and then that of the supervisor, and then to you. And I understood from Mr. Henderson that when they were requested, they were already on your desk.

Mr. McENTYRE: No, I think Mr. Cheney must have requested them from the clerk, and the clerk then referred them to the supervisor, and the supervisor mentioned them to me, and I said: "What are those files: bring them to my desk". If Mr. Cheney wants them, he could come and ask me for them.

Mr. ASSELIN: Is that correct?

Mr. McENTYRE: Yes.

Mr. ASSELIN: Would you say that the unusual nature of those files is due to the minister's correspondence thereon?

Mr. McENTYRE: Yes sir. And the fact it was unusual for files of this type to be requested.

Mr. ASSELIN: Yet there have been no other cases where files have been refused since?

Mr. McENTYRE: No, not to my knowledge.

Mr. SMITH (*Simcoe North*): Have there been up to this date? There have been particular classes of files?

Mr. ASSELIN: Has access to other files been refused by your department since?

Mr. McENTYRE: Not to my knowledge.

Mr. HENDERSON: No sir.

Mr. SMITH (*Simcoe North*): Have there been requests made?

Mr. ASSELIN: Has access to other files been refused since then?

Mr. McENTYRE: I would imagine Mr. Cheney could tell you that.

Mr. CHENEY: Yes.

Mr. ASSELIN: Have you asked for access to other files?

Mr. CHENEY: Yes, and we have others, and we are working on those files today.

Mr. ASSELIN: In the head office?

Mr. CHENEY: No, we have asked the head office for other files and we have them.

Mr. ASSELIN: Thank you, Mr. Cheney; thank you, sir.

Mr. WINCH: I would like to get clear what Mr. McEntyre knows and what he does not know. Let me put it this way: Mr. McEntyre has already stated several times—

Mr. ASSELIN: I was under the impression that I had the floor, but I see you have given it to somebody else.

The CHAIRMAN: You may proceed Mr. Asselin. It was my mistake.

Mr. ASSELIN: Mr. McEntyre, you have two letters, and I think you indicated to Mr. Henderson that you were aware of a legal opinion on the action that your department has taken in refusing these files. Are you aware that a request for such a legal opinion has been made?

Mr. McENTYRE: No, I am not aware of it.

Mr. ASSELIN: Thank you.

Mr. WINCH: I did not imagine you would say that. My question is supplementary to what has just been asked. I would like to find out what Mr. McEntyre knows and does not know. May I just go over it. Mr. McEntyre stated several times that he was under no instructions, and that he has not asked for any legal opinion. He stated that on this matter of the refusal of disclosure of these three files, he discussed it on several occasions with the minister. We have also had evidence from Mr. Henderson that upon two occasions at least over a period of years Mr. Henderson has written to Mr. McEntyre as to this legal opinion which has been acknowledged by Mr. McEntyre, and that he would take it up with the minister. Now, if you put all this together, is it not a reasonable question to ask: Must you not know whether or not the minister made a request for a legal interpretation from the Department of Justice, and whether or not, if he did, he has received an answer?

Mr. McENTYRE: I can only infer from the fact that he has not shown me an answer he did not get one, because I think it would be reasonable in the course of events if he had an opinion from the Department of Justice, he would show it to me.

Mr. WINCH: That leads me to my next question: That being the case, for over a period of 13 months an application has not been made for legal interpretation, and therefore none has been received. Therefore this entire question comes down to the position that it is not a matter of right of the Auditor General to have access to any and all files; it is not a question of legal interpretation between the wording of the Income Tax Act and the Financial Administration Act, but it is purely a question of privilege and decision on the part of the minister as to whether or not certain records will be made available, because there is something in them which he does not want to have disclosed.

Mr. McCLEAVE: That is an unjust inference. There is no suggestion here that the minister has written any improper letters at all. It is "McCarthyism" that we are getting close to or have reached if that question is answered.

Mr. WINCH: In view of your own statement now, would you say that there is any question of legality involved at all, Mr. McEntyre, on the matter of refusing disclosure of these three files?

Mr. McENTYRE: I think I have already said that I thought there was an arguable case.

Mr. WINCH: There being an arguable case, have you, as deputy minister, taken any action yourself, or through the minister, to have the question resolved, for I presume it must be a legal one?

Mr. McENTYRE: I have taken no action myself.

Mr. WINCH: Have you any information as to whether any action has been taken by the minister?

Mr. McENTYRE: No.

Mr. McGEE: Would it be normal practice for you to be aware of any opinion that the minister might have sought in any circumstances? I suggest, in the normal course of events, you should not be so aware.

Mr. LEWIS: What is the answer to that question?

Mr. McENTYRE: I would imagine that if the minister had obtained an opinion from the Department of Justice, he would have told me about it.

Mr. WINCH: As you yourself have just stated, this is an arguable case. What have you, as deputy minister, done to see that the argument is resolved? The answer is nothing?

Mr. McENTYRE: There is a law and there is administration; now it is a question. If the law is doubtful, the administrator has to act one way or the other. My predecessor, Mr. Brown, in 1947—whether he had any doubts about the law or not—as a matter of administration, instructed the district officers to provide the Auditor General with any information he requested; but whether he had any reserves as to the majority of those instructions or not, I do not know. I do not think it is open or shut whether the department should withhold any particular type of file or information from the Auditor General. But my predecessor having, as administrator, made that decision, I did not feel that until the matter had been resolved one way or another, I should make any change.

Mr. WINCH: Mr. McEntyre stated that this was an unusual case a little while ago, and he stated that he had to give it careful consideration. May I ask if 13 months, still uncompleted, is not a long time to get instruction from the minister?

Mr. McENTYRE: I suppose that time is relative.

Mr. PUGH: I take it, Mr. McEntyre, that the tax department is only human, and in the course of your business here at head office, you would make certain compositions or arrangements with taxpayers who are in difficulty?

Mr. McENTYRE: Yes, sir.

Mr. PUGH: It may be that in reviewing a file you may decide that you cannot collect right now, but that you will take it over a period of years. Well, when you make these decisions, have any of such decisions ever been queried by the Auditor General's branch?

Mr. McENTYRE: I would think they would have been commented upon, but I do not recall any offhand.

Mr. PUGH: Have any of the compositions or arrangements been upset?

The CHAIRMAN: Do you not mean assessments?

Mr. PUGH: No, not assessments; I mean compositions or arrangements.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Payment arrangements.

Mr. McENTYRE: Or merely when you come to an understanding with a taxpayer as to the time over which he has to pay off his indebtedness, unless he falls down on the arrangement, you would ordinarily carry through and get paid according to those terms. Now, I would not imagine that the Auditor General has ever commented in a particular case as such, that the arrangement was wrong. There may have been general comments that the collection officers were not being sufficiently strict, or that the men were being too strict—something of a general nature of that kind. But I cannot recall ever having the Auditor General say that in a particular case the arrangement was improper.

Mr. HENDERSON: If I might add to what Mr. McEntyre just said; there have been instances where we have advised the department that the terms of the settlement appeared to us to be unnecessarily lenient, and which would lead to a discussion in which we would endeavour to resolve it with them, and in which we have argued questions about it.

Mr. PUGH: I take it, as you mentioned a large amount of unpaid taxes outstanding as of a certain date, that your chief interest would be that of the adequacy of the bad debts account that they set up.

Mr. HENDERSON: We must be prepared to take a view on that, as I sought to explain in my own testimony. We have come to regard over the years the efforts of the department itself very highly in these matters. Nevertheless, that does not absolve us from satisfying ourselves that the methods and procedures of their internal checks are effective.

Mr. PUGH: When an arrangement has been made by the tax department, Mr. Henderson, do you accept that? What I am trying to get at is this: as a result of your audit, has any change in the method of payment been made in any case?

Mr. HENDERSON: I cannot say that we have been responsible for the department making any changes. We see a method of settlement that has been worked out, and the first person to whom we would take the question would be Mr. McEntyre and his associates, and in probing the extenuating circumstances, probably we would say that they had not studied it closely enough, or something of that kind.

I always hope that we may have a very real appreciation of the difficulties in these matters. In investigating these things we naturally lean very heavily on what the district offices have to say. We ourselves are not charged with going out and doing any collecting. We do not circularize these accounts

in any way, which is always standard audit practice. We have never done that in the case of income tax, and I am not suggesting that we start. I would like to make that point.

Mr. SCOTT: Mr. McEntyre there are one or two points on which I am not clear in connection with your discussion with Mr. Lewis as to the reason why access was denied.

When I was asking you earlier I understood you to say the reason you felt access should be denied was the presence in the files of correspondence from the minister to the taxpayer.

Mr. McENTYRE: Copies of the correspondence, yes.

Mr. SCOTT: Not because they were head office collection files?

Mr. McENTYRE: Well, when the minister indicated his reluctance to produce these files to the Auditor General because of the personal correspondence, of which copies were on the file, then the question came up whether legally he could refuse to give these files to the Auditor General.

Mr. SCOTT: Perhaps I am not making myself clear. You exercised your own opinion first before referring this to the minister, did you not?

Mr. McENTYRE: Yes.

Mr. SCOTT: And the basis upon which you made that decision was not that they were head office collection files but that they contained correspondence from the minister to the taxpayer?

Mr. McENTYRE: Yes. I felt the minister should be advised the Auditor General had requested to see files on which there were copies of his personal correspondence.

Mr. SCOTT: Is it your view that any letter from the minister to the taxpayer removes this file from the confines of the Financial Administration Act?

Mr. McENTYRE: I think that would be a question for the minister to decide, whether he wished files containing his personal correspondence to be shown to the Auditor General, and if he should feel in any way reluctant about giving this information, then he could rely on the legality or the legal arguments which would exist at that time to follow out his intention.

Mr. SCOTT: Are you suggesting that any letter from the minister in the file puts the file in this classification?

Mr. McENTYRE: I would think that the minister would have an interest where there was a personal and confidential letter on the file.

Mr. SCOTT: That is not what I am asking; I am asking you did you consider any letter from the minister in the file in this classification or does it have to be a special kind of letter.

Mr. McENTYRE: Any letter.

Mr. SCOTT: Any letter at all.

Mr. McENTYRE: Yes.

Mr. SCOTT: Now, my last question. The minister has made public statements that the taxpayers involved are members of parliament. Were the taxpayers members of parliament?

Mr. McENTYRE: Of course, I am subject—

The CHAIRMAN: Mr. McEntyre, I do not think you should answer that question, if secrecy means anything. We are narrowing right down to practically the main—

Mr. SCOTT: But this has been stated publicly, Mr. Chairman, and there is a cloud over it.

Mr. LEWIS: The minister said so.

The CHAIRMAN: Then let him say so again, if he wants to.

Mr. WINCH: Does that ruling also apply to any question as to the total amount of money involved in this matter?

The CHAIRMAN: Mr. McEntyre has offered to give that information. Am I correct in that, Mr. McEntyre?

Mr. McENTYRE: Yes.

Mr. WINCH: As well as the years of assessment?

Mr. McENTYRE: Yes.

Mr. SCOTT: You are ruling he should not answer my question, Mr. Chairman?

The CHAIRMAN: I am ruling that the question is an improper one at this time. If the minister wants to answer when he comes, that is up to him.

Mr. GRAY: Mr. Chairman, I have one or two questions, the first one to Mr. Henderson or Mr. Cheney, or both. I wanted to ask if before this situation arose there ever had been any occasions when the Auditor General has demanded files of this type from the income tax branch which contained personal correspondence from the minister, and have those files then been delivered? And, by personal correspondence I do not mean just a formal letter of a minor nature but a letter indicating some personal interest or activity on the part of the minister?

Mr. HENDERSON: Do you mean have I ever seen files containing personal correspondence from the minister?

Mr. MUIR (*Lisgar*): Of a personal and confidential nature.

Mr. GRAY: Yes.

Mr. HENDERSON: I myself have seen them.

Mr. GRAY: You have.

Mr. HENDERSON: Not necessarily in the taxation division department either, but as we draw files it is not unusual to find correspondence from the minister, from the minister to various people or to his colleagues.

Mr. LEWIS: Marked "personal and confidential"?

Mr. HENDERSON: Yes.

Mr. GRAY: What about in the taxation division?

Mr. HENDERSON: I have not seen personally any files there, but perhaps Mr. Long could add to this.

Mr. LONG: If you pin it down to files of this type I cannot answer; however, if you want to enlarge that to take in remission files I would say there are definitely personal and confidential letters.

Mr. GRAY: Consider my question enlarged.

The CHAIRMAN: If those are all your questions, Mr. Gray, Mr. Cameron is next.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. McEntyre, did you gather from the minister that the legal opinion he was seeking from the Justice Department was not concerned specifically with these three files but with all collection files in your department.

Mr. McENTYRE: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It was the legal opinion as to the authority of the Auditor General to see any of your files.

Mr. McENTYRE: I do not think that he discussed with me the extent of the opinion he intended to request of the Department of Justice. We simply discussed this particular case and he indicated that he thought he might ask the Department of Justice for an opinion. I do not think we went into details as to what extent the opinion would go.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would you expect it to be an opinion confined to these specific files or one covering the whole question of the Auditor General's authority?

Mr. McENTYRE: I would think that it would extend to the Auditor General's authority—that is, the whole extent of it. To be of any particular use I would think it would have to be.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well then, Mr. McEntyre, can you explain to us, if that was your view and you were under the impression that this legal opinion was being sought, why your department has permitted Mr. Cheney and his staff to examine similar files of this nature, as he has stated.

Mr. McENTYRE: I do not suppose these other similar files were ever drawn to my attention, and I never applied my mind to it.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But if you considered that because the legal opinion was still pending you therefore had to continue holding up these three special files, would it not have been the logical thing to say that in waiting for the legal opinion you must withhold all similar files and issue such instructions to your staff?

Mr. McENTYRE: Certainly as far as collection files were concerned at head office, I am very surprised to learn that Mr. Cheney saw any similar files with copies of the minister's correspondence on them.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That brings us to the point that it is entirely the nature of this correspondence because Mr. Henderson has already told us that he himself has seen correspondence of this type and Mr. Long has confirmed that he has seen files with personal and confidential letters from the minister included.

Mr. PUGH: Was that in the taxation department?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, he said remission files.

Mr. LEWIS: Yes. What is the difference?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, what is the difference?

Mr. LEWIS: None, I would suggest, Mr. McEntyre.

The CHAIRMAN: Mr. McEntyre, you have been sitting quite a long time: is it your wish to have some time to think about this?

Mr. ASSELIN: Mr. Chairman, in all fairness to Mr. McEntyre I want to ask him if the committee could assume the reason he has been holding this up is instruction of the minister and for that reason he has not felt it is incumbent upon him to ask for a legal opinion? Is that correct, Mr. McEntyre? Was it on the instructions of your minister that you held the files up?

Mr. McENTYRE: Yes, I did; he wanted to give the matter further consideration.

Mr. ASSELIN: And the question of whether it is a legal question and argumentative does not arise; you have had instructions and that is why you have not asked for a legal opinion?

Mr. McENTYRE: I have not because I was not instructed first of all, and because the minister indicated he was going to ask for a legal opinion.

Mr. ASSELIN: And you were instructed to hold the files up?

Mr. McENTYRE: Yes.

Mr. ASSELIN: I felt in all fairness to Mr. McEntyre I should bring this matter up.

Mr. McCLEAVE: Mr. Chairman, because there is a definite conflict between the two acts could we have some guidance from Mr. McEntyre on the practice in the United Kingdom, let us say, at our next meeting.

The CHAIRMAN: Could you help us on that Mr. McEntyre?

Mr. McENTYRE: Yes.

Mr. LEWIS: Could Mr. McEntyre also enquire whether anyone in the legal department of the Department of National Revenue has looked into this question.

The CHAIRMAN: Gentleman, would you leave the next meeting to the call of the Chair. I am suggesting Thursday morning and, if necessary, Friday morning. I am quite sure you will not have the printed evidence by Thursday. However, I think we should persevere. Is that agreeable?

Some Hon. MEMBERS: Agreed.

An Hon. MEMBER: What time?

The CHAIRMAN: Nine-thirty.

APPENDIX "A"

FOLLOW-UP REPORT
BY THE AUDITOR GENERAL

TO THE

STANDING COMMITTEE ON PUBLIC ACCOUNTS
ON THE ACTION TAKEN BY DEPARTMENTS AND OTHER AGENCIES
IN RESPONSE TO RECOMMENDATIONS
MADE BY THE COMMITTEE IN 1961

In paragraph 105 of its Fifth Report, 1961, presented on July 1, 1961, the Committee requested the Auditor General to report to it on the action taken by government departments and other agencies towards implementing the recommendations made by the Committee. This is my report on the current situation with respect to the various recommendations made by the Committee in 1961.

It would appear that action, which the Committee might consider appropriate in the circumstances, has been taken by the departments or other agencies concerned in 24 of the 35 cases where recommendations were made by the Committee.

FORM OF THE PUBLIC ACCOUNTS

In paragraph 9 of its Second Report, 1961, presented on April 19, 1961, the Committee recommended that Volume I of the Public Accounts be divided into two volumes in future, the first to contain the summary report and financial statements and the second mainly details of expenditures and revenues, with the then Volume II, containing the financial statements of the Crown corporations and the audit reports thereon, becoming Volume III. The Committee further recommended, in paragraph 10 of the report referred to, that the following additional information be included in the explanatory notes following the summary of allotments and expenditures for each vote, in the departmental sections of Volume II: (i) explanation of the cause of the variation, if significant, between the appropriation and the total of expenditures charged thereto; and (ii) reference to any ex gratia payment in excess of \$100 entered as a charge to the vote.

Comment by the Auditor General: The Public Accounts volumes for the fiscal year ended March 31, 1961 were arranged in the manner recommended by the Committee and the additional information desired was included in Volume II.

FORM OF THE ESTIMATES

On April 19, 1961 the Secretary of the Treasury Board presented a document to the Committee (pages 214-240 of 1961 Committee Proceedings) prepared by the Staff of the Treasury Board, dated April 14th, entitled "Possible Changes in the Form of the Annual Estimates". The Committee agreed that the Auditor General be asked to study the proposed changes as set out in this document and to report his observations thereon to the Committee in due course.

In accordance with this request, the Auditor General reported his observations on this Treasury Memorandum to the Committee at its meeting on May 16, 1961 (pages 376-382 of 1961 Committee Proceedings). At the same meeting a Sub-committee on Estimates was formed by the Committee. Following the report of the Sub-committee to the Committee, the following recommendations

*Printed pursuant to a resolution adopted by the Committee on Thursday, December 13, 1962. (See Issue No. 1 of the Minutes of Proceedings and Evidence, page 7.)

for improvement in the form of the Estimates were made by the Committee in paragraphs 2 to 6 of its Fourth Report, 1961, presented to the House of Commons on June 20, 1961:

2. In the opinion of your Committee the following interrelated changes in the form of the Estimates would contribute to a better understanding of the content of the Estimates:

- (a) a new 'permanent numbers' Vote system;
- (b) the inclusion of Vote numbers in the Details Section;
- (c) the addition of a departmental Table of Contents to the Estimates Book;
- (d) the rearrangement of the sequence of information so that the Details Section of each departmental class would be located immediately following the Vote Section for that class;
- (e) the inclusion of separate summaries at the end of each departmental or agency grouping so that the sources of the amounts carried forward into the over-all Estimates summary will be clearly evident.

3. The inclusion of additional information in the Estimates and the rearrangement of existing detail were also given consideration:

- (a) Your Committee recommends the proposal to distribute, for information purposes, the costs of major common services which are provided to other departments without a corresponding charge to their appropriations.
- (b) Your Committee recommends the proposed rearrangement of staff detail which will result in a clearer understanding of establishment proposals and is pleased also to note that this improvement will result in a sizeable saving in the work-load associated with the present detailed costing of salaries estimates.

4. Old Age Security payments have, since the inception of the program, been included with the budgetary items in the Estimates although Parliament has provided the Old Age Security Fund with its own sources of revenue. Inclusion of this different type of expenditure each year in the Estimates with the Budgetary items complicates the Estimates Summary and also the Standard Object Summary in the back of the Estimates Blue Book. Your Committee recommends henceforth that this present method of presentation be discontinued and that the item be shown at the bottom of the Estimates Summary in the front of the Book for information only.

5. Since 1937 when the last major revision of the number and nature of Votes was made, there has been a substantial growth and reorganization of the public service. These changes have not always been matched with changes in the Votes. Therefore, it is recommended that the officials concerned study the matter further and present the results of such a study to the Public Accounts Committee during the next session.

6. Your Committee recognized that there are other possible changes in the form of Estimates. Some of these are of a fundamental nature and your Committee was not able to give full consideration to these proposals in the limited time available. The Committee was of the opinion that this factor should not delay the implementation of those recommendations on which there is full agreement. These recommendations are contained in paragraphs 3 and 4 above. Your Committee recommends that other possible changes be considered early in the next session.

Comment by the Auditor General: The changes in presentation recommended in paragraphs 2, 3 and 4 above were implemented in the Estimates Book for 1962-63.

With regard to the recommendation made in paragraph 5 quoted above, the Secretary of the Treasury Board referred to this when appearing before the Committee at its first meeting of the 1962-63 Session on December 13, 1962. He stated that the officials concerned had been working on this and he expressed the hope that there would be an opportunity when the Committee deals with this item to bring some thoughts before it on the matter.

Included among the "other possible changes" referred to in paragraph 6, quoted above, were those suggested in paragraph 16 of my 1960 report as follows:

- (a) comparing the amounts estimated for the ensuing year directly with the anticipated actual expenditure for the current year, as well as with the amounts that had been estimated for the current year;
- (b) giving the estimated amounts in three columns: estimated expenditure (gross); estimated revenue; and net requirements to be voted (thus giving Parliament an opportunity to consider the sufficiency of receipts for services rendered, in relation to the costs incurred);
- (c) including both operating and capital budgets of Crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving Parliament an opportunity to consider broad policies associated with their operations); and
- (d) including appropriate explanations in all cases where expenditures proposed for the year involve commitments for future years.

I have not been informed as to the extent officials of the Treasury Board may have considered these and "other possible changes" in the Form of the Estimates. It is of interest to note that the Royal Commission on Government Organization in commenting on the Estimates in Volume I of its reports (Report 2, Part 2, Chapter 2) published on September 6, 1962, includes recommendations along the above lines.

In my opinion it is a matter of vital importance that the form in which the Estimates are presented be improved. Expenditures of public funds at the level at which they exist today are of such importance to the Canadian economy that it is essential that the Estimates be presented to Parliament in the clearest and simplest manner possible. Only on this basis can Parliament be expected to give the proposed expenditures the scrutiny and consideration they should have and to do so before the money is spent.

It is my opinion that more effective progress could be made in developing improvements in the form of the Estimates and laying suggested improvements before the Committee were the Secretary of the Treasury Board to consult with the Auditor General before presenting further proposals for the consideration of the Committee. The form of the annual Estimates determines in large measure the manner in which the subsequent accounting for expenditure is maintained and reported to Parliament in the Public Accounts and this, in turn, is important to the Auditor General in relation to his responsibilities to Parliament.

SECOND CLASS MAIL

In paragraph 7 of its Fifth Report, 1961 the Committee referred to a comment in its Third Report, 1960, that it had been informed that the handling of second class mail had been estimated by the Post Office Department as having cost \$28 million in 1958-59 (up \$4 million from 1956-57) while revenues were \$6 million (the same as in 1956-57)—and stated that it had recommended that the Department "review the problem to the end that a more realistic policy be adopted".

In paragraph 8 it was noted that the Committee had been informed by the Deputy Postmaster General that note had been taken of the recommendation, and the question of increased postal rates had been raised with the Postmaster General, but that the Royal Commission on Publications having by then begun its studies the Postmaster General had decided that the Department should await the Commission's report before changes in legislation were proposed. The Committee noted that the report of the Commission had included recommendations with respect to postal rates and recommended "that the Department give active consideration to the matter".

Comment by the Auditor General: On December 12, 1962 I wrote to the Deputy Postmaster General asking to be informed regarding changes made since 1960 which were designed to affect the relationship between the cost of and revenue from handling second class mail, and the following was included in his reply dated December 18, 1962:

In our letter of February 15, 1962 we mentioned that the 'Mailing in Canada' rate was increased to 5 cents per pound effective August 1, 1961, and that the additional revenue resulting from this increase was estimated at one and three-quarter million dollars.

In the first 12 months of operation the revenue for several months exceeded the revenue for the corresponding months in the previous year by more than \$150,000 but the overall additional revenue for the year amounted to \$1,454,000. The increase in the rate still appears to be responsible for readjustments in the volume of mailing in Canada. We are hopeful that when the present monthly fluctuations level off, the additional annual revenue will be approximately one and three-quarter million dollars.

In addition to the above we are also considering increasing the rate on foreign publications mailed by newsdealers in Canada from 4 cents to 5 cents per pound. When implemented, this change will establish a uniform rate for foreign publications irrespective of whether the mailing is made by the publisher or his newsdealer in Canada. The change will produce some additional revenue but is actually designed to produce a more simplified rate structure.

A change having an opposite effect on revenues is represented by the decision to terminate the 4 cents per pound rate charged for second class mail destined to post offices served by Air Stage Services. This rate which has no legal basis, is very difficult to administer. The reduction in revenue, estimated from \$18,000 to \$24,000 per annum, will be partly offset by the savings in the simplification of our operating procedures.

The Royal Commission on Publications recommended that in the matter of second class mail the United States be asked for compensation in the form of terminal payment. It is estimated that Canada handles a larger volume of second class mail of United States origin than the volume of Canadian mail handled by the United States postal service. Terminal payments were recommended as a method of adjusting this imbalance.

From a strictly procedural point of view such a system could be established provided the United States was favourable, which is very doubtful. Article 16 of the special Postal Convention between our two countries stipulates that any matter not specifically provided for is to be governed by the Acts of the Universal Postal Union. The Acts of the U.P.U. provide for the delivery of second class mail without the collection of terminal charges. Whenever this question was raised at Postal Congresses it was rejected as being contrary to the fundamental maxim of the U.P.U.

From the operating point of view the establishment of statistical checks would involve a complicated and costly system. Since our second class mail exchanges fluctuate, statistical checks might not be an entirely satisfactory method of measurement. For the present, therefore, this recommendation is being deferred.

The other main recommendations of the Commission propose (1) the repeal of the local delivery rates on second class mail and (2) free mailing privileges throughout Canada for the first 5,000 copies per issue of the non-profit, cultural and 'little magazines'. It is estimated that the adoption of these recommendations would reduce our revenue by approximately \$484,000 per annum.

It is also proposed to abolish the 2 cent rate on publications issued less frequently than once a month but not less frequently than quarterly. This change would involve a slight reduction in revenue and is designed primarily to simplify our complicated second class mail rate structure.

All these proposals involve the amendment of the Post Office Act. A Bill incorporating the changes was actually introduced during the last session and received first reading on April 18, 1962, but no further action was taken during that session. The Bill may be reintroduced during the present session.

I would like to mention that in view of the continuing heavy operating losses on second class mail it was considered advisable to institute a Departmental study of the second class mail rates including a review and a simplification of the rate structure. The results of this study are expected in the near future and every consideration will be given to rate changes that will not only simplify the rate structure but also increase postal revenue.

Revisions and prospective revisions of second-class postage rates referred to by the Deputy Postmaster General are confined to two areas, as follows:

- (1) foreign publications mailed in Canada by choice of the foreign publishers; and
- (2) simplification of the rate structure which is most desirable but which may result in a reduction rather than an increase in revenue.

These revisions, when completed, should result in increased annual revenues of between \$1 million and \$1½ million which will not, however, be sufficient to cover the further increase in the cost of handling second class mail because the annual deficit is now estimated to exceed \$24 million (compared with \$22 million in 1958-59). It seems apparent that this deficit cannot be reduced without a general upward revision of rates of postage on Canadian publications.

With regard to the increase in revenue which has been achieved, it should be kept in mind that the revenue from foreign publications mailed in Canada (instead of in the country of publication) which now amounts to about \$2½ million per annum is dependent on the foreign publishers continuing to find it to their advantage to mail in Canada. Should this advantage disappear, the revenue would cease without any corresponding reduction in costs.

It is of interest to note that the Royal Commission on Government Organization, when commenting on the Post Office in Volume 3 of its reports (Report 17, Chapter 4) published on January 7, 1963, recommends that "an annual grant be made by Parliament in amount sufficient to cover the costs of the Post Office in handling second class mail, to the extent that such exceed postal revenues arising from the rates set by Parliament".

INTEREST ON TEMPORARY INVESTMENT OF UNIVERSITY GRANTS FUNDS

In paragraph 11 of its Report, the Committee commented upon the question of interest on funds temporarily invested by the Canadian Universities Foundation (between the date of receipt of funds from the Minister of Finance and the date of the payment of grants to universities). The Committee noted that it had been informed that the opinion of the law officers was that, on balance, the money ought to be returned to the Receiver General and a formal demand had been made to the Canadian Universities Foundation requesting the return of approximately \$109,000. The Committee further noted that it had been informed that, following representations by the Foundation, the matter had again been referred to the law officers for a further opinion and the Committee requested the Deputy Minister of Finance "to report to it next year on the situation that may then exist with respect to this matter".

Comment by the Auditor General: The Deputy Minister of Finance informed me on March 19, 1962 that the Foundation's solicitors had advised it that "the claim of the Crown should be firmly resisted" as it was their opinion that the Crown did not possess "a beneficial interest in the moneys so invested". On the other hand, the Deputy Attorney General, after considering this advice, remained of the opinion "that the interest in question... is properly payable to the Receiver General of Canada". The Deputy Minister stated that it had been decided by the Cabinet that Parliament should be asked to approve of the Crown withdrawing its claim, which would then be written off along with other debts due to the Crown when Parliament had passed Vote 710 of the Further Supplementary Estimates, 1961-62, authorizing the deletion from the accounts of certain debts due, and claims by Her Majesty.

In the discussion of Vote 710 in Committee of Supply on March 30, 1962 (Debates, pp. 2345-7) no reference was made to the account standing in the name of the Canadian Universities Foundation. This account was included in a listing of accounts to be deleted, in the following terms:

Finance—

Debt resulting from interest earned prior to distribution by
the Canadian Universities Foundation on funds granted by
the Crown to Canadian Universities (1 debt) \$109,651

However, the listing was not tabled in the House until after Vote 710 had been considered in Committee of Supply.

CROWN ASSETS DISPOSAL CORPORATION

In paragraph 19 of its Report the Committee stated that it would watch with particular interest the Result of the inquiry by the Royal Commission on Government Organization as to whether the disposal of Crown assets could be more efficiently performed by a division of the Department of Defence Production.

Comment by the Auditor General: In its report on "Purchasing and Supply" which was one of a number of reports relating to "Supporting Services for Government" contained in Volume 2 of its Reports, the Royal Commission on Government Organization concluded that "disposal of surplus equipment, materials and supplies by government departments and agencies through the medium of Crown Assets Disposal Corporation is less effective and less economical than it should be". Accordingly the Commission recommended that "Crown Assets Disposal Corporation be operated as a division of the proposed Department of Purchasing and Supply, and that its personnel and methods of operation be integrated as closely as possible with other functions of the Department".

PRAIRIE FARM EMERGENCY FUND DEFICIT

In paragraph 27 of its Report, the Committee, having regard for the fact that the Agricultural Stabilization Act provides for the inclusion of an item in the Estimates to cover the net operating loss of the Agricultural Stabilization Board in any year, recommended:

that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in the Estimates to cover any deficit that might be anticipated in the operation of the Prairie Farm Emergency Fund.

Comment by the Auditor General: In paragraph 56 of the Auditor General's 1961 report, reference is made to our understanding that the Department of Agriculture had established a committee to study various matters relating to the Prairie Farm Emergency Fund, including consideration of the recommendation quoted above.

In response to a request that I be informed of the outcome of this study and what was being planned as a result, the Deputy Minister of Agriculture informed me on March 15, 1962 that:

careful consideration was given to the implementation of the recommendation, but it is not considered appropriate to attempt to introduce an amendment to the Prairie Farm Assistance Act at this session of Parliament. The matter will, however, receive continuing attention with the purpose of recommending the amendment to the Act at some future date.

On August 8, 1962 I was provided by the Deputy Minister of Finance with a copy of an opinion given by the Deputy Attorney General on April 5, 1962 which was to the effect that the Minister of Finance has authority to pay out of the Consolidated Revenue Fund all payments required under the Act and that no further authority from Parliament is necessary. The Department of Finance regards this opinion as supporting the practice that has been followed of charging the annual deficits in the Prairie Farm Emergency Fund directly to Expenditure without an item being included or any reference being made thereto in the Estimates.

The Audit Office has never questioned the legal authority of the Minister of Finance to pay out of the Consolidated Revenue Fund all payments required to be made under the Act. It is our view, however, that where the operations of a fund of this type—whether it operates independently or as a special account in the government's books as part of the Consolidated Revenue Fund—result in a deficit, this should be placed before Parliament through the medium of the Estimates, with the amount of the deficit (covered, in this case, by temporary advances made under the Act) being charged to Expenditure only after Parliament's approval.

DELAY IN ACCOUNTING FOR COUNTERPART FUNDS

In paragraph 29 of its Report the Committee recommended:

that efforts be made by the Director General, External Aid, to obtain from the various recipient countries, on a reasonably current basis, the audit certificates called for by the agreements, and requests the Auditor General to report on the results in due course.

Comment by the Auditor General: In February 1962 I wrote to the Director General asking to be informed of the efforts that had been made in recent months to obtain the certificates in question, and to be advised of the current

situation. The Director General replied in the same month, followed this with a second letter dated January 2, 1963, which stated, in part:

Using rounded out figures, the accounts of the External Aid Office show that at March 31, 1962 a total of \$180,296,000 had been expended on commodities calling for the establishment of counterpart funds, and up to the present date audit certificates signed by the Auditors General of the recipient countries have been received to the extent of \$49,888,000 leaving a balance of \$130,408,000 not certified. The corresponding balance at the close of the preceding year was \$118,404,000.

Serious difficulties have been experienced in obtaining the audit certificates required, and officers of the External Aid Office have recently expressed the opinion that such certificates may never be obtained from some of the recipient countries. We believe that consideration should be given to an alternative method of accounting for the counterpart funds, in place of the present procedure which does not appear to have proven satisfactory either to the donor or to the recipient countries.

EXPENDITURE CHARGES TO ADJUST INSURANCE ACCOUNT BALANCES

This matter was dealt with in paragraphs 30 to 33 of the Committee's report as follows:

30. The Committee noted the Auditor General's comment that in the absence of interest credits to the accounts for the Civil Service Insurance Fund, Returned Soldiers Insurance Fund, and Veterans Insurance Fund, the estimated actuarial deficits which arise in the accounts are made good by means of annual bookkeeping charges to expenditure, with the charges being reported as special 'statutory' items in the Public Accounts, although "in no case does the governing legislation contain provision for the making of such charges".

31. The Comptroller of the Treasury was invited to comment on this matter and stated that the Solicitor to the Treasury had been asked whether or not, in the case of the Civil Service Insurance Fund, an amendment to the governing Act or an item in the Estimates would be necessary or if a regulation issued under section 18 of the Act would be sufficient to make the entries. The Comptroller presented an opinion from the Solicitor that "the Governor in Council could authorize a book-keeping entry to be made from time to time, crediting the account with the amount necessary to make the balance in the account equal to the estimated liability, under the authority of paragraph (f) of section 18 of the Civil Service Insurance Act".

32. The Auditor General was invited to file a statement enlarging on his view. In this statement he quoted paragraph (f) of section 18 of the Civil Service Insurance Act, as follows:

The Governor in Council may, for the purposes of this Act, from time to time make regulations for

(f) prescribing the accounts to be kept and their management and expressed it as his view that this was simply a general provision—not a clear-cut authority to write up an understated liability by charging expenditure.

33. The Committee recommends, that the Minister of Finance give further consideration to the appropriateness of the existing statutory authority.

Comment by the Auditor General: On March 6, 1962 the Deputy Minister of Finance provided me with a copy of a memorandum on this subject, which concluded with the following observation:

I consider that we have the necessary authority for the accounting action that has been taken. However, as this question has now been raised by the Committee, we are requesting a legal opinion from the Deputy Attorney General.

On August 8, 1962 I was provided by the Deputy Minister of Finance with a copy of an opinion given by the Deputy Attorney General on April 5, 1962 which included the following:

The Civil Service Insurance Act authorizes the payment out of the Consolidated Revenue Fund of all moneys payable under that Act. No further Parliamentary authority is required and no action taken by the Minister of Finance in relation to the Accounts of Canada can or does have the effect of altering the existing authority to make payments out of the Consolidated Revenue Fund. Quite apart from any regulations under section 18 (f) of the Civil Service Insurance Act, I am of the view that the Financial Administration Act is itself sufficient authority for keeping the accounts in relation to the Civil Service Insurance Fund in the manner prescribed by those regulations.

PROCEEDS OF FINES NOT ACCOUNTED FOR

In paragraph 35 of its Report, the Committee requested that the Deputy Minister of Fisheries "report to next year's Committee on the then current situation" with respect to the failure of a former magistrate to remit funds totalling approximately \$2,400, imposed and collected by him during the years 1956 to 1958 for offences under the Fisheries Act and regulations made thereunder.

Comment by the Auditor General: The Deputy Minister of Fisheries provided me with a copy of a memorandum dated March 20, 1962 which noted that judgment had been obtained in the amount of \$2,370 with taxed costs of \$103 making a total indebtedness of \$2,473. The memorandum also noted that an arrangement had been made, through the Department of Justice, for the payment of \$50 per month by the debtor. Only two payments, one in September and one in October, 1961 had been made but, in addition, sums totalling \$251 due to the debtor for services rendered had further reduced the balance to \$2,122 at March 20, 1962.

By December 15, 1962 the balance owing had been reduced to \$1,830, mainly through action taken by the Department under section 95 of the Financial Administration Act, which provides that amounts due on other account to a debtor by the Government of Canada may be set off against his indebtedness. The Department is continuing to press for payment of \$50 per month, as undertaken by the debtor.

CONSTRUCTION COST OF HOUSE AT R.C.A.F. STATION

In paragraph 39 of its Report, the Committee recommended:

that when authorization is given by the Treasury Board for a project to cost a stated estimated amount, it should be clearly understood by all concerned that the amount authorized is intended to include not only cash outlays but also the cost of service labour, materials supplied from stores, service equipment utilized and departmental supervision

directly associated with the work—and departmental submissions to Treasury Board should clearly indicate that all such costs have been included in the estimate.

Comment by the Auditor General: On February 14, 1962 I was provided with information by the Deputy Minister of National Defence which indicated that current practice in the Department's Construction and Engineering Branch is along the lines proposed by the Committee.

NON-RECOVERY OF EXPENSES INCURRED IN LENDING CROWN-OWNED PROPERTY

In paragraph 40 of its Report, the Committee noted that, to the extent of \$4,925, expenses that had been incurred by the Department of National Defence in connection with an informal arrangement to lend landing barges to the Canadian National Exhibition Association had not been recovered from the Association, and in paragraph 42 the Committee recommended:

that where public property is being loaned to private organizations or individuals, there be a formal written agreement setting forth the terms under which the loan is being made.

In paragraph 42 the Committee requested that the Deputy Minister of National Defence report to next year's Committee regarding the final result of the matter.

Comment by the Auditor General: The Deputy Minister of National Defence informed me on February 14, 1962 as follows:

The administrative arrangements under which public property is loaned to private organizations or individuals were reviewed in light of the Committee's recommendation. This resulted in amendments to the regulations being issued on July 24, 1961, to implement the recommendation and to emphasize that approving authorities must obtain written agreement to the terms of a loan before material is issued.

We understand that the matter of the landing barges loaned to the Canadian National Exhibition Association has still not been resolved and that a balance of \$3,476 is still unsettled.

SUBSIDIZATION OF MEDICAL STUDENT OFFICERS

In paragraph 45 of its Report, the Committee, in relation to this question, recommended:

that the recovery of the cost of subsidization should be in cash unless the circumstances are exceptional. In such circumstances, the period of payment should not extend beyond three years. The Committee is also of the opinion that when an officer is released under an instalment payment arrangement, any amount of deferred pay that had accumulated to his credit should be applied against the indebtedness.

Comment by the Auditor General: The Deputy Minister of National Defence advised me on April 13, 1962 that a directive on this subject had been issued to all Departmental Personnel Directorates, and provided:

- (1) When under paragraphs (5), (6) and (7) of QR Article 15.18 an officer is required to reimburse the Crown for the cost of his subsidized training, reimbursement is to be made in cash at the time of release.

- (2) In a case of extreme hardship, the Minister may be requested to authorize the repayment by:
- (a) withholding of pay and allowances which would ordinarily be payable at the date of release;
 - (b) application as part payment of any deferred pay or cash benefits under the CFSA;
 - (c) receipt of as large a cash payment as the officer can reasonably be expected to make; and
 - (d) repayment of the balance due by monthly instalments—the number of instalments to be determined after consideration of the officer's financial condition but in no case to be more than thirty-six.

This would seem to provide a satisfactory solution to the problem.

UNUSUAL EXERCISE OF EXECUTIVE DISCRETION IN AWARDING OF ANNUITY UNDER CANADIAN FORCES SUPERANNUATION ACT

The Committee recommended in paragraph 47 of its Report:

that consideration be given to amending the wording of subsection (4) of section 10 of the Canadian Forces Superannuation Act in such a way that in no case should a pension be awarded to a person released on grounds of inefficiency that would be greater than that to which he would have been entitled had he retired voluntarily.

Comment by the Auditor General: In advising me on February 14, 1962 of the action taken in response to this recommendation, the Deputy Minister of National Defence stated as follows:

The policy guide has been revised to ensure that, insofar as the present provisions of the Canadian Forces Superannuation Act permit, no awards will be made to persons released on grounds of inefficiency that would be greater than those awarded in connection with voluntary retirement.

The question of a suitable amendment to the Canadian Forces Superannuation Act to completely eliminate anomalies is now under study and will be proposed when that Act is next amended.

The action taken and in prospect would appear to meet the Committee's recommendation.

INTERIM ALLOWANCES FOR LODGINGS AND MEALS ON TRANSFER

In paragraph 50 of its Report, the Committee recommended, following consideration of an allowance paid by the Department of National Defence for lodging and meals (while his house was being redecorated following his return to Canada) to a member of the Armed Services who had rented his home during a tour of duty outside Canada:

that in future, expenses incurred under similar circumstances, should be treated as personal expenses with no reimbursement being made out of public funds and that the regulations be clarified accordingly.

Comment by the Auditor General: In August 1962 revised regulations were promulgated by the three Services with a view to giving effect, in principle, to the above-noted recommendation of the Committee, by providing that when interim lodgings and meals are required at the new place of duty solely as a result of necessary major repairs or redecoration to a house which was owned

by the member prior to his arrival at his place of duty and occupied previously by him, approval shall be denied except where most unusual circumstances prevail in which case the claim may be submitted to Headquarters for consideration.

REIMBURSEMENT TO SERVICEMEN FOR LEASE TERMINATION PAYMENTS

The Committee included the following observation in paragraph 52 of its Report:

The Committee was informed that, although the circumstances might not be identical, the lease form used by officers of the R.C.M.P. provides for only a 30-day termination clause. Having this in mind, and believing that the situation with regard to rental accommodation has improved significantly in recent years, the Committee recommends, that the maximum period with respect to which reimbursement be made to members of the Forces, in the circumstances mentioned, be reduced to the equivalent of one month's rent in future.

Comment by the Auditor General: In response to my request to be informed of the action taken by the Department with regard to the foregoing recommendation, the Deputy Minister advised on February 14, 1962 as follows:

A review of claims during the period April to September, 1961 has been made and it has been established that only a minority of service personnel are involved in the maximum payments for lease termination. There were 2,684 claims paid during this period at an average cost of approximately \$110 per claim. This figure appears to be reasonably close to one month's average rent and it is considered that there is little abuse under the present regulations. It is considered desirable to retain the maximum period of three months to protect the small number of service personnel who may require it.

While the Committee's recommendation to limit reimbursement for lease termination payments to one month's rent might be imposed by departmental regulation, the Judge Advocate General has pointed out that landlords have a legal right to expect certain compensation for termination of a lease before its normal expiration period and that the Crown is justified in reimbursing servicemen in this regard as the expense involved is a legitimate cost of a move.

The possibility of insisting that leases involving servicemen contain a clause requiring only 30 days notice of lease termination has been examined. The Judge Advocate General has given the opinion on this question that even the Federal Parliament has not the constitutional authority to enact such a provision.

To ensure that personnel are fully conversant with the main aspects of obtaining accommodation on the civilian market, a Tri-Service Order is being prepared to provide a guide for Unit Commanding Officers in counselling incoming personnel.

During our audit of the 1961-62 accounts numerous cases were noted where reimbursement continued to be made on the basis of the maximum of three months rent permitted by existing regulations.

NATIONAL DEFENCE ADMINISTRATIVE REGULATIONS AND PROCEDURES

In paragraph 53 of its Report the Committee referred to the subject of all the paragraphs contained in the Auditor General's report bearing on the Department of National Defence and made the following observation: "On the basis of its experience in prior years with armed forces expenditures, and on the basis

of the evidence given at this year's meetings, the Committee has noted with concern the continuing tendency on the part of some branches of the armed services toward incurring ill considered and wasteful expenditures. Notwithstanding the frank and helpful testimony given by the Deputy Minister of National Defence, the Committee recommends,

that the Minister of National Defence enquire into this situation with a view to assuring that there is an appropriate improvement in administrative regulations and procedures.

Comment by the Auditor General: The Minister of National Defence was prompt in issuing a directive to the Chiefs of Staff stressing the importance of good administrative practices throughout the three Services and requesting that they examine the observations made by the Committee and make any necessary changes in regulations and procedures to give effect to the views of the Committee.

DETERMINATION OF "SALE PRICE" FOR SALES TAX PURPOSES

Paragraph 54 of the Committee's Report referred to the long-established administrative practice of computing sales tax on less than the sale price when goods are sold directly to retailers or consumers, and by wholesalers directly to consumers; and in paragraph 56 the Committee recommended "that the existing method of valuation be provided with statutory sanction".

Comment by the Auditor General: I wrote to the Deputy Minister of National Revenue, Customs and Excise, asking to be informed as to what progress had been made with regard to this matter, and his reply on February 5, 1962 included the following:

You will recall that there is a difference of opinion as to whether or not any statutory enactment is necessary or desirable in this regard, but if it is decided to take any action I will be pleased to apprise you in due course.

I have, however, received no further communication on this matter from the Deputy Minister.

The Act has not been amended in this respect. However, the Royal Commission on Taxation, established on September 25, 1962, has terms of reference sufficiently broad to permit consideration of this matter.

CONTRACTS WITH COLOMBO PLAN EXPERTS

In paragraph 58 of its Report, the Committee referred to the practice of establishing the fees of Colombo Plan experts on the assumption that the income therefrom will be subject to tax, and then seeking to recover portions of the fees in those instances where the income is not subject to tax—and in paragraph 59 the Committee recommended:

that consideration be given to revising the present practice to one under which lower fees would be paid to the experts in the first instance, on the assumption that income tax would ordinarily not have to be paid by them, and reimbursement would be made in a case where it transpires that the expert does in fact have to pay income tax.

Comment by the Auditor General: The Director General, External Aid, informed me on February 13, 1962 that, following detailed discussions, agreement was reached on changes which resulted in a system of offering advisers fees on the following basis:

- (a) Persons recruited for periods of service abroad anticipated to exceed 183 calendar days are offered a fee net of income tax on the assumption that income tax would ordinarily not have to be paid by them.

Should it transpire that the adviser is taxable, an appropriate amount in relation to the emoluments stipulated in the adviser's agreement with this Office is payable as reimbursement from aid programme funds.

- (b) Advisers whose assignments are for periods of 182 days or less receive a fee assumed to be subject to taxation, the adviser being responsible for direct payment to the Department of National Revenue of such taxes as may be levied.

This would seem to provide a satisfactory solution to the problem.

AWARDS UNDER THE PENSION ACT

In paragraph 62 of its Report, the Committee referred to several classes of cases of awards under the Pension Act where it appeared that unusual administrative practices had developed, and it recommended:

- (a) that in any case in which a pension overpayment has resulted due to failure of the pensioner to disclose income, the amount of the overpayment should be made a matter of record in the accounts, and deleted therefrom only with appropriate statutory authority;
- (b) that in determining the amount of pension to be awarded dependent parents, the Commission should recognize the responsibility of the surviving children to assist their parents, and take into consideration their ability to do so;
- (c) that, having regard for subsection (2) of section 40 of the Pension Act, consideration should be given by the Canadian Pension Commission to the legality of cases where, as mentioned in the final subparagraph of paragraph 72 of the Auditor General's Report, one death can result in payments being made concurrently to a widow (under section 37), children (under section 26) and parents (under section 38)."

Comment by the Auditor General: I wrote to the Chairman of the Canadian Pension Commission on February 1, 1962 asking to be informed of the steps taken by the Commission in relation to the above recommendations of the Committee.

The Chairman advised me concerning recommendation (a) above that when the Commission rules there is an overpayment this is made a matter of record in the accounts and, if uncollectable, the amount is deleted therefrom only with appropriate statutory authority. However, no action has been taken to record and collect overpayments in the type of case referred to in the 1960 report (paragraph 72) as follows:

Since the amount awarded to an applicant in a dependent condition is based upon the additional income he requires to maintain himself, it follows that if the applicant had failed to disclose income, this would result in an overpayment. However, in a number of instances in which undisclosed income was noted and drawn to the attention of the Commission, the pension was simply adjusted currently and no overpayment was considered as having occurred.

With respect to recommendation (b), the pertinent section of the Act (section 38(6)) was amended in 1961 to provide that the Commission might deem any children residing with the "dependent parent" to be contributing to his or her support not less than ten dollars a month, but the Commission feels that there is no obligation for them to take into account the ability of other children to assist and no cases were observed where this was done.

Concerning recommendation (c), the Commission reports that it has carefully considered the legality of cases where one death results in more than one pension and is of the opinion that such payments are legal and in accord with the Act. It pointed out that the present section 40 was contained in the original Act of 1919 and has continued unchanged since then although certain other sections, such as 38(2), were inserted to make provision for classes which were otherwise excluded. The Commission is of the opinion that, as the Act provides definite authority for these pensions, the general directions of section 40 could not be considered to fetter sections 26, 37 or 38. It would seem that consideration should be given to amending the legislation with a view to eliminating these inconsistencies.

PAYMENTS TO CIVIL SERVANTS ADDITIONAL TO SALARY

In paragraph 65 of its Report, the Committee referred to the practice of relying on section 60 of the Civil Service Act to exempt a position from the operation of section 16 of the Act in order to make a payment to a public officer additional to his salary. In view of the fact that an opinion of the Deputy Minister of Justice on the matter was given as long ago as March 12, 1948, the Committee recommended in paragraph 66 of the Report:

that the Civil Service Commission request another ruling from the Deputy Minister of Justice, unless it transpires that the new Civil Service Act clarifies the situation.

Comment by the Auditor General: In response to my enquiry as to whether another ruling on the question had been requested by the Civil Service Commission, I was informed by the Chairman of the Commission on February 2, 1962 as follows:

With reference to your letter of February 1st about the recommendation of the Public Accounts Committee that the Civil Service Commission obtain another ruling from the Deputy Minister of Justice on the practice of using Section 60 of the Civil Service Act to exempt a position from the operation of Section 16, the Commission took note of the Committee's proviso—"unless it transpires that the new Civil Service Act clarifies the situation"—and in view of the terms of Section 14 of the new Civil Service Act, to become effective on April 1st of this year, did not request another ruling from the Deputy Minister of Justice.

The new Civil Service Act came into force on April 1, 1962 and the Audit Office is closely watching the application being given to sections that might have a bearing on this matter. Until the audit of the 1962-63 accounts is complete we will not know whether the problem has been resolved. We would suggest to the Committee that further consideration need not be given to the matter unless it is reintroduced in our 1963 report.

UNAUTHORIZED SALARY PAYMENTS BEYOND RETIREMENT AGE

In paragraph 68 of its Report, the committee recommended: that consideration be given to requiring departments, by regulation, to verify the age of their employees before they near retirement age, and prescribing some form of penalty to be assessed against employees who have deliberately concealed their age while continuing to work beyond the normal retirement age without appropriate authority.

Comment by the Auditor General: The Deputy Minister of Finance provided me with a memorandum dated March 14, 1962 which included reference to the Public Service Superannuation regulations promulgated by Order in

Council P.C. 1962-137 of February 1, 1962, and commented that "it is hoped by all concerned that the application of these new regulations will reduce to a minimum the type of case which was the reason for this recommendation". While the first point in the Committee's recommendation has thus been dealt with, the Deputy Minister's memorandum noted that no action had been taken towards prescribing a penalty to be assessed against employees who deliberately conceal their age.

LOSSES REPORTED IN THE PUBLIC ACCOUNTS

In paragraph 72 of its Report the Committee referred to the Auditor General's comment that the annual statement of losses published in the Public Accounts, as required by section 98 of the Financial Administration Act, did not include all losses suffered by the Post Office Department during the year. In paragraph 73 the Committee recommended:

that, in future, statements be included annually in the Public Accounts, listing Post Office losses and showing recoveries effected in a manner similar to other departments.

Comment by the Auditor General: This recommendation was accepted by the Department and all Post Office losses which had not been recovered or reported previously were included in the listing of losses in the Public Accounts for the first time in 1960-61.

RESPONSIBILITY FOR LOSS OF PUBLIC FUNDS

Paragraph 74 of the Committee's Report contains a reference to an amendment that was being considered by the Department of National Defence to its regulations "to make it plain that an officer or man who has public funds in his custody is responsible to make good any loss that may occur, unless he is able to give a satisfactory explanation of the loss". In paragraph 75 the view was expressed that such an amendment seems to be an entirely reasonable one, and the committee recommended "that appropriate action be taken by the Department without further delay".

Comment by the Auditor General: It was my understanding that the regulations were to be amended to make it clear that an officer or man who had a deficiency in public (or non-public) monies in his custody for which he could give no satisfactory explanation would be liable to reimburse the Crown for the financial loss incurred.

While certain routine amendments were made to the regulations in November 1961, there was no change in the matter of holding a custodian responsible for monies in his care. The regulations still provide that an officer or man shall make reimbursement to the Crown only when the Crown has proved that the loss of public funds is the result of a wilful act or negligence on his part. I do not consider that this meets the Committee's recommendation.

UNUSUAL PAYMENT FROM A SPECIAL ACCOUNT OF CANADIAN WHEAT BOARD

In paragraph 76 of its Report, the Committee stated that it was glad to learn that the Board of Grain Commissioners is now moving to have all elevators carry all-risk insurance which would include coverage for unusual eventualities such as the loss suffered in 1959-60 when substantial quantities of wheat, oats and barley were tumbled into Lake Superior.

Comment by the Auditor General: The Deputy Minister of Agriculture informed me on March 15, 1962 that "all public terminal elevators, except those

operated by the National Grain Company and the Manitoba, Saskatchewan and Alberta Wheat Pools, are now carrying all-risk insurance”.

ADVANCES TO THE EXCHANGE FUND ACCOUNT

In paragraph 77 of the Committee's Report, reference is made to the \$136 million net loss at March 31, 1960 on dealings in gold and foreign securities, and on revaluations of gold and currencies, since the establishment of the Exchange Fund Account—and in paragraph 78 the Committee recommended:

that the Minister of Finance be requested to submit to the Committee at the next Session a report dealing with the desirability of writing off the amount in the accounts, with appropriate parliamentary authority, for example against the reserve for losses on realization of assets. The importance of the problem is such that your Committee believes that at the next Session of Parliament it should give special attention to the problem, including the question of transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and re-evaluation of holdings.

Comment by the Auditor General: As the exchange value of the U.S. dollar equalled \$1.05 Canadian (i.e., the Canadian dollar approximated \$0.95 U.S.) at close of business on March 31, 1962, compared with an exchange value of \$0.99 Canadian a year earlier, a substantial exchange gain (unrealized) arose in valuing the Fund's U.S. dollar holdings, which had the effect of reducing the accumulated deficiency to \$33,310,000 at that date. The subsequent official re-valuation of the Canadian dollar at \$0.925 U.S. on May 2, 1962 has had the effect of eliminating the deficiency entirely.

We remain of the opinion that, in order to prevent any future accumulation of losses due to dealings in gold and foreign currencies and securities, provision should be made for transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and re-evaluation of holdings of gold and foreign currencies.

I have not been informed by the Department of Finance regarding its views on this matter.

UNEMPLOYMENT INSURANCE FUND

In paragraph 81 of its Report, the Committee recommended:

that the Auditor General give consideration to the advisability of increasing the scope of his examination of unemployment insurance fund transactions in the field.

In paragraph 82 the Committee made reference to the fact that the Unemployment Insurance Commission is not required by statute to prepare annual financial statements subject to audit, and the Committee recommended:

that the preparation of such statements, along the lines of those published at page P-19 of the Public Accounts for 1959-60, be made a statutory responsibility of the Commission, and that they be required to be reported upon by the Auditor General.

Comment by the Auditor General: In paragraph 116 of the Auditor General's 1961 report it is stated that “a moderate increase has taken place and is continuing, in the number of field examinations made by the Audit Commission”. It has not, however, been possible to extend this increase in our work further during the past year by reason of the shortage of staff referred to at the end of this Memorandum.

No action has been taken in response to the recommendation of the Committee that the preparation of the statements of the Fund be made a statutory responsibility of the Commission and that they be required to be reported upon by the Auditor General. However, pending the provision of such statutory direction, the Chief Commissioner of the Unemployment Insurance Commission has informed me of the Commission's readiness to present annual financial statements along the lines suggested and to record his approval thereon, and for my part I have examined the statement with respect to the 1961-62 fiscal year and have appended my certificate thereto.

It is of interest to note that the Report of the Committee of Inquiry into the Unemployment Insurance Act, tabled on December 20, 1962, states in its

Conclusions and Recommendations (paragraph 172) that:

we think it would be desirable that there be a statutory requirement on the Unemployment Insurance Commission to prepare a financial statement showing in a full and complete manner the condition of the Fund at the end of each fiscal year and the income and expenditure occurring during the year. We think also that this statement should be certified by the Auditor General and should be placed before Parliament as soon as may conveniently be done following the date of its preparation.

CROWN CORPORATIONS

Paragraph 86 of the Report noted that "the Committee was glad to be informed by the Auditor General that he intends to include in his future reports to the House of Commons more detailed information covering the financial operations, and related data, of Crown corporations".

Comment by the Auditor General: The section dealing with Crown corporations in the Auditor General's report for 1960-61, comprising paragraphs 117 to 147, provides more detailed information than in preceding years including, with respect to each corporation: comments regarding the Crown's equity therein; a summary of operations for the year in comparison with the preceding year; and any other matters which it was felt might be of interest to the House. A similar approach will be followed in future reports.

DEPARTMENTAL OPERATING ACTIVITIES

Paragraph 87 of the Committee's Report reads:

The Committee feels that it would be desirable, in order that members have a clear understanding of the true financial results of departmental trading or servicing activities, such as those of the Department of Public Printing and Stationery and airport operations of the Department of Transport were overall financial statements included in the Public Accounts without undue cost or staff increases.

Comment by the Auditor General: I wrote to each of the departments responsible for the following departmental operating activities:

Agricultural commodities stabilization activities,
Board of Grain Commissioners,
Canadian Government Elevators,
National Film Board,
Post Office activities,
Public printing and stationery activities,
Royal Canadian Mint, and
Airport operations

quoting the above paragraph of the Committee's Report and requesting to be informed of the extent to which they expected that financial statements would be prepared for the year ended March 31, 1962 along the lines suggested.

The replies received from several of the departments indicated that plans were being made towards preparation of the financial statements on this basis for the 1961-62 fiscal year. Reluctance was, however, found on the part of certain agencies to take the lead in this respect in the absence of encouragement from the Treasury Board and little progress was therefore made.

It would be of material assistance were the Treasury Board to support the proposal in view of the important part that statements of this type could play in controlling costs, and having regard for the importance attached to the matter by the Public Accounts Committee. In the meantime we shall continue our discussions with the departments concerned.

BOARD OF GRAIN COMMISSIONERS

In paragraph 88 of its Report, the Committee stated that it felt concerned that in each year since 1953-54 the expenditures of this activity had exceeded its revenues by more than \$1,000,000, and the Committee recommended "that steps be taken to bring revenues and expenditures into balance".

Comment by the Auditor General: I inquired of the Deputy Minister of Agriculture regarding the steps that had been taken in response to this recommendation and his reply, dated May 14, 1962, included the following:

The Canada Grain Act authorizes the Board of Grain Commissioners to make regulations fixing the fees payable for any service performed by its officers or employees. There is, however, no requirement of the Act that those fees shall cover the costs of providing the services. The level of the fees, therefore, rests with the discretion of the Board.

These services provided by the Board with respect to western grains are on all fours with similar grading and inspection services provided by this Department for a wide range of agricultural products. In all instances the statutes under which those services are provided contain authority, as does the Canada Grain Act, for the establishment of fees for services. The extent to which fees are levied varies with different commodities, but in none is the relation of revenue to expenditures as great as in the case of the Board of Grain Commissioners. Even in 1960-61, when the Board's revenues for inspection and weighing services were \$1,383,835 less than expenditures, sixty per cent of the expenditures were covered by revenue from inspection and weighing fees.

It is our view that these services provided by the Board of Grain Commissioners, and those of a similar nature provided for other products by this Department, are of the nature of a public service in the interests of Canadian agriculture. We had not felt that fees from these services should necessarily be expected to match expenditures. This, I believe, is consonant with the position of Parliament which placed no such requirement in the Canada Grain Act nor in similar statutes relating to other agricultural products.

There is, of course, another factor which has had to be considered in this matter in recent years. Any increase in the Board's fees for inspection and weighing, to compensate for the substantial salary increases which have been authorized in recent years, would have been reflected to some extent in returns to producers for their grain. This has presented some difficulties during the period when the government finds it necessary to provide financial assistance in various forms to western

grain producers. Regardless of this, however, and while we do not consider that the Board's operations should necessarily be self-supporting, we do recognize that the Board's revenues, historically, have closely matched expenditures and we are exploring with the Board the extent to which steps can be taken to reduce the present disparity.

On December 19, 1962 I again wrote to the Deputy Minister referring to the comment in his letter of May 14, 1962 that the Department was "exploring with the Board the extent to which steps can be taken to reduce the present disparity", and asking if he would provide me with any additional information that might now be available in this regard. I have not yet received a reply to this further inquiry.

Having regard for the Committee's reference to there being an excess of expenditure over revenue of more than \$1,000,000 in each year since 1953-54, it is noted that in 1951-52 there was an excess of revenue over expenditure of \$108,000 and in 1952-53 one of \$351,000, while in 1953-54 there was a comparatively small excess of expenditure over revenue of \$188,000.

SUBSIDIES

In paragraph 89 of its Fifth Report, 1961, the Committee recommended: that a study be made next year of the various classes of subsidies, or payments in the nature of subsidies, that are provided, directly or indirectly, out of public funds.

The Committee requested (paragraph 90) that the Minister of Finance prepare a statement "summarizing the various subsidies paid from public funds during the year, and showing the comparable amounts for the two preceding fiscal years".

Comment by the Auditor General: I understand that a statement along the lines requested is in course of preparation by the Department of Finance.

THE CANADA COUNCIL

ALLOCATION OF PROFITS AND INTEREST EARNED ON UNIVERSITY CAPITAL GRANTS FUND

In paragraph 92 of its Fifth Report, 1961, the Committee noted that it had been informed that these profits and interest had not yet been allocated to the provinces or the universities, and the Committee recommended "that the Council seek to conclude this matter without further delay".

Comment by the Auditor General: The Council's Director advised me on December 17, 1962 as follows:

The Canada Council has had prominently in mind the views of the Standing Committee on Public Accounts and the great importance of coming to a decision about the manner in which the interest and profits arising from the investment of the University Capital Grants Fund should be distributed. The matter has been under discussion several times at Council meetings, and a special committee of Council was appointed to give further consideration to the problem that has arisen. The problem consists in the conflicting legal advice that the Council has received concerning the interpretation of the Canada Council Act, Section 17, subsection 2(b). It is hoped that the problem can be resolved

in the very near future and that the Council will find itself in a position to take action at one or other of the meetings it will hold in February, March and May of 1963.

NEED FOR INCREASED RESOURCES

In paragraph 93 of the Committee's Report, reference was made to the statement that had been made by the Chairman of the Council in the course of his evidence that, in the opinion of the Council, a minimum additional amount of annual income is needed to provide for more scholarships, fellowships and grants-in-aid—and the Committee recommended:

that this be made more widely known to corporations, individuals and foundations in Canada and abroad. It believes that strenuous efforts along these lines should be undertaken both by the Council as a body and by the individual members of the Council.

Comment by the Auditor General: The Council's Director informed me on December 17, 1962 that:

A special committee of the Canada Council has been created to consider ways and means of obtaining benefactions from individuals, corporations and other sources. A small brochure of 31 pages entitled "Private Benefactors and the Canada Council" has been prepared and distributed widely to lawyers, legal firms, trust companies, banks and other interested persons and institutions. Approximately 12,000 have been sent out, and another 3,000 are available. This brochure explains the Council's financial needs, how benefactions may be made, and comments on section 21 of the Canada Council Act, which states that the Council "shall be deemed to be a charitable organization".

The Council is also attempting, by direct approach to some Canadian companies to persuade them to assume financial responsibility for certain projects that the Council wishes to have supported. The Canada Council Train is a case in point.

Consultations have been held with lawyers who have approached the Council on behalf of anonymous clients who have shown interest in the Council's work, and have expressed the desire to make benefactions to the Council in their wills. The Council has reason to be encouraged by these inquiries.

The Council has not yet made a firm decision to conduct a public campaign for funds as such campaigns are usually conceived. One difficulty that will have to be met and overcome in this connection is the necessity of avoiding a conflict of interest with the numerous organizations that the Council helps and that are accustomed annually to ask business houses, foundations and individuals for financial support. The Council has continued to urge these organizations to increase their receipts from such sources. Therefore the Council itself must be careful not to take steps that will divert to its own coffers money that in the past has been available to such organizations.

POLYMER CORPORATION LIMITED

AUDIT OF SUBSIDIARY COMPANY

In paragraph 99 of its Fifth Report, 1961, the Committee expressed the opinion that since the Auditor General of Canada is the auditor of the parent Crown corporation, he should also be the auditor of the French subsidiary, and it recommended:

that the Auditor General be appointed either the auditor or joint auditor of Polymer Corporation Limited (SAF).

Comment by the Auditor General: On October 9, 1961 the Auditor General was appointed an auditor of the subsidiary company, along with the outside firm in France previously appointed.

AUDITOR GENERAL'S OFFICE

After expressing its interest in the comprehensive audit approach which had been described by the Auditor General, the Committee recommended in its Third Report, 1960, presented to the House of Commons on July 20, 1960, that, since the Auditor General is responsible only to Parliament, consideration should be given by the Special Committee on the Civil Service Act at the next Session of Parliament to "authorizing the Auditor General, with the approval of the Treasury Board, to recruit his own staff under a plan of organization necessary for the proper functioning of his Office and the establishment of rates of compensation for each class of position, having regard to the rates of compensation and conditions of employment for comparable positions in other branches of the public service and outside the public service."

No action was taken on this recommendation by the government or by the Special Committee on the Civil Service Act. The staff difficulties being encountered by the Auditor General's Office were again reviewed by the Committee during its meetings in 1961 which again reported to the House of Commons in its Fifth Report, 1961, presented on July 1, 1961, as follows:

100. In its Third Report, 1960, the Committee recommended that consideration be given to authorizing the Auditor General, with the approval of the Treasury Board, to recruit his own staff under a plan of organization necessary for the proper functioning of his office.

101. The Committee was informed by the Auditor General that the government had approved an increase, from 141 to 159, in the establishment of his Office for the fiscal year 1961-62. Discussions had been held in January, 1961, with officers of the Civil Service Commission with a view to having the extra positions filled as soon as possible after they became available on April 1, 1961. However, in spite of the best efforts of the Commission, while carrying out the normal recruitment procedures, only one of eight senior auditors required had reported for duty by June 12, 1961, and the total staff stood at only 139 at that date. The Committee is seriously concerned at this state of affairs which is not only subjecting the Audit Office to heavy pressure to complete its audit assignments but is affecting the scope of its work.

102. The Chairman of the Civil Service Commission informed the Committee that Clause 39 of the Bill to amend the Civil Service Act would give the Commission the power to delegate to any deputy head the right to select his employees, but he explained that he was unable to state to what extent this section, if enacted, would be used by the Commission.

103. The Auditor General, in the discharge of his broad auditing responsibilities, is responsible directly to Parliament. It is fundamental to the effective discharge of these responsibilities that the Auditor General's Office be strong, capable and efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants. The Committee therefore recommends,

that the Civil Service Commission either reach agreement with the Auditor General on some mutually satisfactory staff arrangement

or that following enactment of the new Civil Service Act the Commission delegate to the Auditor General the right to select his employees in order that he may carry out the responsibilities placed on him by statute.

Comment by the Auditor General: I must report that it has not been possible for me to reach agreement with the Civil Service Commission on any mutually satisfactory staff arrangement. For many years now the recruiting efforts of the Commission have not been successful in bringing the working staff up to the establishment authorized for the Office, the working staff of 150 on October 31, 1962 last being 29 employees short of its authorized establishment for 1962-63.

The new Civil Service Act became effective April 1, 1962. Section 39 of this Act states that the Commission may authorize a deputy head to exercise and perform any of the powers or functions of the Commission under the Act in relation to the selection of candidates for a position. Section 74, headed "Exclusions", reads as follows:

In any case where the Commission decides that it is not practicable nor in the public interest to apply this Act or any provision thereof to any position or employee, the Commission may, with the approval of the Governor in Council, exclude such position or employee in whole or in part from the operation of this Act; and the Commission may, with the approval of the Governor in Council, re-apply any of the provisions of this Act to any position or employee so excluded.

On May 30, 1962 I asked the Chairman of the Civil Service Commission what action could now be taken toward implementing the recommendation made by the Public Accounts Committee and whether the Commission would be prepared to accede to the Committee's recommendation by delegating to me the right to recruit my own staff. The Chairman replied to this question on June 20, 1962 as follows:

My colleagues and I are of the opinion that section 74 of the Civil Service Act does not apply in this case since the Commission must, in order to invoke it, decide that "it is not practicable nor in the public interest to apply this Act or any provision thereof to any position or employee" before asking the Governor in Council to approve the exclusion of any position or employee in whole or in part from the operation of the Act. We are of the opinion that both practicality and the public interest would indicate that you and your officers should make a genuine effort to be governed by the same considerations which affect the civil service as a whole, although it is admitted that there is some justification, based on analogy, for treating your staff as the new Civil Service Act has treated that of the Houses of Parliament and the Library of Parliament. I can only suggest, therefore, that you seek an amendment to section 65(4) of the Financial Administration Act, in order to secure the exclusion of your staff either in whole or in part from the operation of the Civil Service Act. The provisions of section 39 of the latter only go to selection and not to appointment, and are primarily intended for the implementation of section 38, where the responsibility lies with the Commission but for practical purposes departments are encouraged to conduct their own promotional competitions subject to subsequent approval by it.

In view of the serious effect that the recruitment difficulties and delays are having on the scope of the audit, I asked the Minister of Finance on

October 3, 1962 if steps could be taken whereby the Auditor General might be empowered to recruit and manage his small professional staff as recommended by the Public Accounts Committee in 1960 and again in 1961. He agreed with me that while an appropriate amendment by Parliament to section 65(4) of the Financial Administration Act would, as suggested by the Chairman of the Civil Service Commission, appear to provide the basic solution to the problem, immediate relief would, in the circumstances, seem to be available were the Civil Service Commission to decide, under section 74 of the Civil Service Act, that it is not practicable nor in the public interest to apply this Act to the staff of the Auditor General's Office. The Minister of Finance advised me on November 16, 1962 that he had made a formal request to the Civil Service Commission for exemption pursuant to section 74 of the Civil Service Act to permit the Auditor General to do his own recruiting but that he had been advised formally by the Acting Chairman that the Commission does not support this request.

This is where the problem stands today. It was not examined by nor did I discuss it with the Royal Commission on Government Organization since the Auditor General's Office was not included in the terms of reference of this Royal Commission because it is not part of the executive government.

Ottawa, January 14, 1963.

OFFICIAL REPORT OF PROCEEDINGS AND EVIDENCE

This edition of the Minutes of Proceedings and Evidence contains the text of Evidence in the language in which it was given, and a translation in English of the French texts printed in the Evidence.

HOUSE OF COMMONS
First Session—Twenty-fifth Parliament
1962-63

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS
Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 3

FRIDAY, FEBRUARY 1, 1963

Auditor General's Report, Year ending March 31, 1962

WITNESSES:

The Honourable G. Nowlan, Minister of Finance; Mr. M. Henderson,
Auditor General of Canada; Mr. J. G. McEntyre, Deputy Minister
(Taxation), Department of National Revenue.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1963

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton

Vice-Chairman: Mr. Lloyd R. Crouse
and Messrs.

Asselin,	Frenette,	Moore,
Beaulé,	Gauthier,	Muir (<i>Lisgar</i>),
Benson,	Godin,	Noble,
Cadieux (<i>Terrebonne</i>),	Gray,	Olson,
Cameron (<i>Nanaimo-</i>	Hales,	Perron,
<i>Cowichan-The Islands</i>),	Hellyer,	Pigeon,
Caron,	Horner (<i>Jasper-Edson</i>),	Pugh,
Chaplin,	Lessard (<i>St. Henry</i>),	Rapp,
Cowan,	Létourneau,	Rochon,
Davis,	Lewis,	Rondeau,
Drury,	Macdonald (Mrs.),	Scott,
Dubé,	Macdonald (<i>Rosedale</i>),	Skoreyko,
Dupuis,	MacRae,	Smith (<i>Simcoe North</i>),
Fleming (<i>Okanagan-</i>	McCleave,	Stefanson,
<i>Revelstoke</i>),	McGee,	Teillet,
Forbes,	McGrath,	Tucker,
	McIlraith,	Winch—50.

(Quorum—10)

R. L. Boivin,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

FRIDAY, February 1, 1963.

(4)

The Standing Committee on Public Accounts met this day at 9.30 o'clock a.m. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Asselin, Benson, Caron, Cowan, Crouse, Dubé, Forbes, Gray, Hales, Macdonald (*Rosedale*), Macnaughton, MacRae, McCleave, McGee, McIlraith, Moore (*Wetaskiwin*), Muir (*Lisgar*), Olson, Rapp, Rochon, Smith (*Simcoe North*), Stefanson, Teillet, Tucker.—(24).

In attendance: The Honourable G. Nowlan, Minister of Finance; Dr. M. Ollivier, Law Clerk, House of Commons; Mr. M. Henderson, Auditor General of Canada; Mr. J. G. McEntyre, Deputy Minister (Taxation), Department of National Revenue; Mr. E. A. Driedger, Deputy Minister of Justice and Deputy Attorney General of Canada.

The Chairman called the meeting to order and introduced to the Committee the Honourable George C. Nowlan, Minister of Finance.

The Minister presented to the Committee a statement on the history of the matter under consideration (paragraph 95 of the Auditor General's Report for the Fiscal Year ending March 31, 1962), and was questioned thereon.

During the discussion, Mr. Lewis moved, seconded by Mr. Macdonald,

That the Auditor General be requested to inspect the three files referred to in paragraph 95 of his Report, and report to this Committee anything which, in his judgment, should be brought to its attention with respect to the contents of the said files.

The Committee agreed that the proposed motion be taken under advisement by the Chairman and that, in the meantime, the said proposal be considered as a notice of motion.

At 11.55 o'clock a.m. the Committee adjourned until 9.30 o'clock a.m. on Tuesday, February 5th, 1963.

R. L. Boivin,
Clerk of the Committee.

EVIDENCE

FRIDAY, February 1, 1963.

The CHAIRMAN: Gentlemen, we have a quorum.

This morning we have the honour and privilege of having with us the Minister of Finance who, as you know, a short time ago was the Minister of National Revenue. I do not think any introduction of one of our best liked and most popular ministers is necessary at all and, in a manner of speaking, I am sure he is glad to be here this morning.

Mr. Nowlan, there were certain questions and issues as well as matters of principle that came up at our last meeting. Have you had the opportunity of reading the evidence?

Hon. GEORGE CLYDE NOWLAN (*Minister of Finance*): I have not read all of it but I have skimmed through a substantial part of the evidence so I think I know generally what was said. However, I have not all the detailed questions and answers in mind.

Mr. ASSELIN: Mr. Chairman, could you ask the minister to speak louder as it is rather difficult to hear from back here and I am sure what he has to say will be very interesting.

Mr. NOWLAN: There are seats at the front of the room. Although my voice is husky now it does clear up later on in the morning.

Although I have read a substantial part of the evidence I have not all the details firmly in my mind. But I know the general issue and, frankly, it is like so many other stories that emanate from parliament hill and elsewhere; sometimes the headline is bigger than the story itself. I do not suppose I spent more than five minutes with the deputy minister on this matter when the issue arose and this was, I would say, one or one and a half years ago when it was first raised and there was no minute. My memory of it is rather hazy. The deputy minister and I, of course, had conferences every week and sometimes several times a week. In the course of one of these conferences he told me about the Auditor General wanting certain files of certain individuals and I understood those were the personal files of the taxpayer concerned. I understood that and I believed that. Now I understand this is what we call the collection file. If it was a collection file I suppose it is a different matter. When the deputy minister raised the question with me I took the position, based on what I understood to be the practice before and based upon my own belief, that the personal files should not be released. I understood this was the case and we went on to other business. That, as I recall it, is all that transpired between the deputy minister and myself.

Sometime later—and I do not know when; I think it was some months later—the Auditor General on the telephone, I believe, or it may have been in my office—but I think it was on the telephone—raised this question again. I said something about getting an opinion from the Department of Justice. I did not get one. However, I got the two acts as I realized there was a conflict between the act governing the Minister of National Revenue and the act governing the Auditor General. When it is a question of conflict of law it always is rather a complicated matter. I thought it was clear from the practice we always followed that the individual files should not be disclosed. The files of the Department of National Revenue and of the taxation branch, of course, are

absolutely confidential. There is a self-assessing system. The taxpayer fills in this form and files it, and he sometimes has to disclose a great deal of information which would be highly personal and could be highly embarrassing. There is not a week goes by, I suppose,—certainly not a month—but what the deputy comes to you and advises that one of your officers has been subpoenaed to go into court and to give evidence with respect to some taxpayer's business. The deputy minister always provides an affidavit in which you swear that this man is an officer of the Department of National Revenue, that he was acting in the course of his duties and he may have certain information. This is only a summary of the affidavit as I have not the form before me. But it would not be in the public interest if he disclosed the information. And when that man goes on the witness stand and reads the affidavit the judge discharges him and says he does not have to give evidence. This question was never raised when I was minister before. I understand there is a reference in the evidence to the fact that these files had been disclosed on other occasions. They apparently were not while I was minister in the four years before this happened because I never heard of it until this one occasion. And I forgot about it until the Auditor General referred to it on the telephone. I considered at that time we should get the opinion from the Department of Justice. But I did not get it, I know.

There has been some reference to letters and confidential letters. Any letter which was in any file would be a letter drafted by Mr. McEntyre to the taxpayer asking him to pay up. Outside of the fact that his name would be on that letter as well as the address there is certainly nothing more confidential about it than a letter which might be published in the newspaper. These were letters which I would be signing.

When I became minister of the department I felt public relations were not the best. They were sending out individual brown slips to the taxpayer saying he owed so much and if he did not pay something would happen. When I came into the department I gave instructions to the deputy that we should always write at least one letter to the taxpayer before we took action on it. I think we changed that to two letters, and sometimes we wrote two dozen letters in an effort to get some action on the part of the taxpayer to pay some money. This was a letter such as the taxpayer would get in respect of these things. He would get the letter from me. I wrote scores of letters to taxpayers asking them to pay up and advising if they did not action would be taken, or perhaps action had been taken and they were dilatory in making payments and we would have to foreclose the mortgage, sell the house or something of that kind. But these letters in these particular cases were simply, as I say, letters saying that unless some action was taken by them we would have to sue them. As I say, we urged them to pay up before that was necessary.

That is about all, Mr. Chairman, I can say in outlining my views in connection with this problem.

The CHAIRMAN: Are there any questions?

Mr. McILRAITH: Mr. Nowlan, you have been telling us about the type of action taken in respect of these files. I do not think that is the primary concern of this committee. This committee is concerned with something more specific, and that is whether or not the minister has the right to refuse to give a file to the Auditor General. We are not concerned with the method of making the files out, but we are concerned with this matter in respect of the function of the Auditor General.

Now, having made those remarks I should like to ask you whether you obtained an opinion from the deputy minister of justice as to whether or not you were obligated by legislation to produce the files to the Auditor General?

Mr. NOWLAN: No, I did not. I had received the opinion of the deputy minister of justice on several occasions in the past, and he said that the

Auditor General had no right to the files. To be perfectly frank, this took place before 1951 when the Financial Administration Act was amended.

I know that the Auditor General of the United Kingdom has recently been refused access to this type of file. The correspondence which I have in the form of letters indicates that opinions in that regard have been accepted.

I would not quarrel for one minute with the Auditor General. The Auditor General has, of course, always had access to the collection cards. When a man or woman owes money to the department there is a card made out immediately showing the taxpayers' name and these cards are kept in the district offices across Canada. The card indicates the amount the individual owes, the dates payments are made from time to time, or perhaps indicates that no payment has been received whatsoever. That record is readily available. The Auditor General has always had access to those cards.

Mr. McILRAITH: Mr. Nowlan, would you explain to the committee how the Auditor General could get access to the three cards in this case if he was not able to get the files and find out the names of the individuals involved?

Mr. NOWLAN: The Auditor General makes frequent visits to the district offices, or at least I am sure that Mr. Watson Sellar did, at which time he either asks for or demands the production of these cards, and they are shown to him.

Mr. McILRAITH: The point I am making is slightly different, Mr. Nowlan. It has become apparent that there was a treasury board minute covering these cases, identifying the three cases, but there are no names in the treasury board minute.

Mr. SMITH (*Simcoe North*): It is my understanding that the witness said last week that there were no addresses shown although the names appeared in the minutes.

Mr. McILRAITH: Unfortunately we do not have printed copies of the evidence.

Mr. SMITH (*Simcoe North*): I think Mr. Cheney was quite clear on that point.

Mr. McILRAITH: Mr. Chairman, perhaps the hon. gentleman will allow me to finish my question. I am ready at any time to let him have the floor but I would appreciate his restraint in interrupting my question.

Mr. SMITH (*Simcoe North*): I think Mr. Cheney made the point quite clear and you would understand if you had been listening.

Mr. McILRAITH: I would like to make my point very clear, Mr. Nowlan, because I think we are now at cross purposes.

My understanding is that there was a treasury board minute dealing with the three cases in question which created the interest of the Auditor General's department, making it desirous on the part of the Auditor General to see those three cases in order to find out what they involved. Following that a problem in regard to identity arose and the Auditor General had no way of getting access to the records except through these files which are at the head office. That was my understanding. Have you looked at that situation to ascertain whether or not he could have obtained what he was after by any other means.

Mr. NOWLAN: Surely I should not become involved in a dispute with the Auditor General over this matter. I am sure he could have obtained the information he wanted. I believe he did obtain that information through a discussion with the deputy minister. I am sure that the whole matter was discussed with him. There is no question in my mind in that regard at all. That is the information I have been given. If there was a minute of the treasury

board it would indicate that, through the procedure of our collection, we passed an order deducting moneys that were due the taxpayer or taxpayers. This procedure is followed every week.

There was some suggestion made that these three cases involved members of parliament. Someone suggested that I made that statement. I do not think that I said they involved members of parliament.

As I said earlier, last Saturday I signed 20 orders of this type deducting moneys that were due taxpayers from the crown. Some cases involved just a few dollars. Other cases involved contractors who owed income tax. They had been working for the Department of Public Works, and the Receiver General was holding their deposits. I sign orders of this type deducting amounts from a few dollars to several hundred. There are minutes and orders of this type prepared all the time.

Mr. McILRAITH: Is it your position that the Auditor General has no right to see these files concerning that type of an order made by the treasury board?

Mr. NOWLAN: If there was a file of that order I would say yes, he has a perfect right to see it because that would be a collection file. There would not be any question in my mind but that he should see it in so far as a collection is concerned. I would and do question very strenuously the right of the Auditor General to go into a personal file of a taxpayer in which details of the taxpayer's private and personal life are sometimes disclosed. I am informed now that these files were collection files which were sent here for collection. If I had understood that, then the Auditor General could have had access to them at any time. In any event I thought he had access to them.

Mr. McILRAITH: Is that your position now?

Mr. NOWLAN: I thought they were personal files which he wished to see.

Mr. McILRAITH: Is it your position now that he can have those questioned files?

Mr. NOWLAN: Certainly that is my position now.

Mr. McILRAITH: Thank you.

Mr. MACDONALD (*Rosedale*): Mr. Nowlan, in the course of the questioning during the previous day it was established through the Auditor General, or perhaps through the deputy minister, that there was no substantial difference between a collection file and a personal assessment file since the process of collection might well require delving into the personal income and the means of a particular taxpayer. Are you now making a distinction between a collection and an assessment file for this purpose?

Mr. NOWLAN: I am not giving you any legal ruling on that at the moment. I am saying that a personal file discloses the personal affairs of a taxpayer and in my opinion it should not be disclosed to anyone except in the event that a taxpayer disputes the assessment and commences a court action. There is no question about the fact that the Auditor General cannot assess a taxpayer's tax. The only person who can assess the taxpayer's tax is the minister, theoretically. Of course he does not do that very often. He does this through his officials. The minister in that way assesses the tax of millions of taxpayers and the Auditor General cannot review that assessment. There is no way the assessment can be altered or reviewed except in the event of an action before the tax appeal board or the exchequer court.

Mr. MACDONALD (*Rosedale*): I take it your view is that he cannot review that assessment as a matter of law. My understanding from the Auditor General's remarks was that he did not review the assessments as a matter of practice because he did not have the staff required to do so. In other

words, he stated his job was to determine the efficacy of the collection procedure and that in order to do so he had to look into the personal assessment files to find out whether the collection procedure is efficient and that he felt he should be entitled to look at those files. Do I understand correctly that your view still is that he should not be entitled to do so?

Mr. NOWLAN: I am making a distinction between the collection element and the personal file, yes. I say that the Auditor General does not have the right of access to those personal files and I do not believe that the Auditor General would ordinarily ask to have access to the personal file of a taxpayer as distinct from the necessary element of collection.

Mr. MACDONALD (*Rosedale*): You are assuming that there is a distinction between a personal file and a collection file and that the Auditor General should not have access to the personal file?

Mr. NOWLAN: I understand now that these files in question were sent here for the purpose of collection. They were sent to the collection office here at head office for the purpose of collection, and that is all there is involved.

Mr. LEWIS: Mr. Nowlan, I do not think that we are dealing with the matter which in my opinion is of substance before this committee. In order to make my point clear to you I will have to review the evidence, as I remember it without having seen it.

The evidence, Mr. Nowlan, was that in 1947 the deputy minister of the national revenue department, a Mr. Brown, if my memory serves me correctly, issued a memo making all files available to the Auditor General. Then in 1952 the Financial Administration Act was adopted containing provision 66, a portion of which is quoted in the Auditor General's report, again if my memory serves me correctly. In addition to the section which is quoted in the Auditor General's report there is another section which requires the Auditor General's officers to take whatever oath it may be necessary for them to take, just as do the employees of the national revenue department, so for that purpose, if I may say so, they become as fully qualified as any employee of the department.

The further evidence that we heard, which is also extremely relevant, was to the effect that the Auditor General's staff in fact for years received all the files from the national revenue department for which they asked. They had seen them in the district offices; they had seen them in the head office at Ottawa; they had seen collection files; they had seen remission files; they had seen refund files; they had seen every file they asked for ever since, as I understood it, 1947. As I understood it, these three files which were denied them were, in so far as the Auditor General's staff was concerned, the first ones since 1947 with which they had had that kind of experience. I think that is a correct summary of evidence on these points.

Now, as a result of that, the question arose, apparently following a conversation between you and the deputy minister and between the deputy minister and the Auditor General and between you and the Auditor General, whether section 66 of the Financial Administration Act operated to supersede the confidential sections of the Income Tax Act as far as the Auditor General's office is concerned. That is really the issue before this committee.

As far as I am concerned, I am sure no member of this committee is seeking to nail you, Mr. Nowlan, if you did commit some kind of indiscretion in those letters—I can be frank with you—as I fully suspect was the case. You are probably human just as all of us are, and if it is just a matter of those three files, that is not the point at all. The point, I suggest, is that you as Minister of National Revenue when this issue occurred, as the minister of the

crown—and I say this frankly to you—had a duty to satisfy yourself and to obtain the necessary legal advice and to make a decision based on that as to what the policy would be so that the Auditor General who is an officer of parliament and has a duty imposed on him, will be able to carry out his duty as he sees fit. Now, did you or did you not seek to clear this matter about the legal point involved between the two acts?

Mr. NOWLAN: I did my duty and I would do exactly the same thing again. I did not know that these files had ever been released; in fact I was told that they had never been. Whatever Mr. Brown may have done in 1947 with respect to the Auditor General and I suppose, this committee—and the letter is on file saying he had been denied those files in 1947—I assumed that still stood. Now, I think Mr. McEntyre found this file afterwards, the night before he came in here, where this memo had been issued, and I do not think Mr. McEntyre knew it and I certainly did not know it. I was told they never had been released and I thought it was good practice and I followed it. If there is conflict, and I do not doubt for a moment there is conflict between the two, I would think that the act should be amended to make it clear that the personal information on any taxpayer's file is not available to anyone outside of the taxation office. I think that should be done. If it had been done before, I do not see why it was not released this time. I was minister for four years and I never had any question about these files. Apparently the Auditor General was getting them; why did he not get them this time? If there were members of parliament involved in this, this was not the first time. There were members of parliament involved, members of all four parties.

Mr. McILRAITH: This has nothing to do with it.

Mr. NOWLAN: You are suggesting that for some reason this came to me. I do not know why it came to me this time except that Mr. McEntyre thought, I assume, that he should not disclose the file. This did not happen in 1957, 1958, 1959 and 1960. I never heard of such a thing, and when it did come I felt this was the first time the question had been raised. I know Varcoe many years ago made a decision that they should not be released; Stewart Edwards made a decision they should not be released, and there is a man sitting right here within sound of my voice, who was on the Auditor General's staff in the years gone by and he knew they never were released, so I took it for granted that that had been the practice. I certainly did not make any searching enquiries into the files, the records or the precedent. I believed it was the right thing to do and I did it.

Mr. LEWIS: Mr. Nowlan, you cannot wash it away that way.

Mr. NOWLAN: I am not washing anything away. Do not put these words in my mouth.

Mr. LEWIS: I am not doing it. I am merely saying this will not do. This thing went on from January, 1962, when the issue was first raised, until if I remember correctly, November when the Auditor General's report of last year came out. The Auditor General was told by your deputy on one or two occasions that a legal opinion was sought. The Auditor General informed this committee that he spoke to you and got the same impression from you.

Mr. NOWLAN: I said that.

Mr. LEWIS: And you come before this committee and express a view now about what happened. I respectfully suggest to you that that does not answer the question which this committee is asking. I understand from my colleagues and my friends in all parties that any member of parliament who has been here for more than four, five or six years is almost certain to be behind in his income tax. I am not at all surprised that some members of parliament may have been involved, Mr. Nowlan. That is not the point at all.

Mr. NOWLAN: The newspapers tried to make a point of it; that members of parliament were getting special treatment. They do not. These are some of the headlines—I am not saying the boys here wrote them—but some of the headlines were “Members of Parliament Protected”. That is what one paper said. There is no member of parliament who is protected any more than any other taxpayer, and I think the Auditor General, in so far as the collection procedure is concerned, treats everyone equally. They speak of orders-in-council. This means an order had been passed deducting X dollars from whatever was due by the taxpayer, and that was the thing that first came to the attention of the Auditor General.

Mr. LEWIS: Mr. Nowlan, there are two more points to follow. If I remember correctly, Mr. McEntyre in his evidence suggested that the reason why the files were drawn to his attention and the reason why he thought the files should not be made available to the Auditor General had nothing to do with the point you raised about personal income tax files or anything like that. It had to do with the fact that there were letters in the files signed by the minister, marked personal and confidential. Would you agree with me, Mr. Nowlan, that if that was the case, that alone should not be a reason for refusing to make the file available to the Auditor General's department?

Mr. NOWLAN: Certainly, if I had a letter in there and if it was marked personal and confidential, it was drafted by the deputy minister and I knew nothing about it until he put it in front of me. I signed it and it had the name of the taxpayer on it and, I presume, the amount he owed. He owed it for some little time and I wished to hell he would pay it up because otherwise I would have to take action against him. If this had been done all the time that is, the production of these files, why was it raised in 1961?

Mr. LEWIS: Because for the first time they were refused.

Mr. NOWLAN: Why were they refused?

Mr. LEWIS: That is what we are trying to find out and you are not helping.

Mr. NOWLAN: Every year there were files containing similar letters. There was a form letter and it was a letter which was dictated and typed in the deputy minister's office. I know there were fewer of those files in 1961 than at any other time, and the fact I had a personal and confidential letter in that file was no different from personal and confidential letters I signed before in 1959, 1958, 1957 and 1960. That is why I assumed that for the first time in years the Auditor General was again raising a question which had been settled long ago. As I said, it was not raised while I was minister. You said that so many months elapsed before I made up my mind, but once I made up my mind about it I forgot about the whole thing. It was not raised again until the Auditor General telephoned me—I think it was over the phone—and asked me about those files. I have no doubt he remembers correctly what I said: “Well, I had better get a legal opinion”. I thought the whole thing over again and I realized there was a conflict there and if there was a conflict you know very well, Mr. Lewis, that a conflict in law is a very tricky problem.

Mr. LEWIS: And a convenient one.

Mr. NOWLAN: Yes, a convenient one. Our law is a matter of practice, precedent, statutory and common law. I understood in 1961 that that was the practice of the department. This applied to collection cards but not to files. If I misunderstood something, then it was never raised before during the years when I was minister. I took the position which I thought was right and which I thought was in keeping with the practice of the department.

Mr. LEWIS: I have one more question. My questions are not very long but you have to explain them. Mr. Nowlan, may I know why, in view of the provisions of the Financial Administration Act and the requirement that the

Auditor General's officers be sworn to the same secrecy as other employees of the department, you say that any income tax file should not be made available to the Auditor General for his inspection if, in his view, it is necessary for him to see it in order to carry out his functions as an officer of parliament? Why would you want to keep any files from him in those circumstances?

Mr. NOWLAN: It is my opinion that in order to maintain the integrity and the confidential nature of the department, it has been, and should be, the practice of the department to do so. All the Auditor General is interested in is the collection; and in the collection there is indicated the amount owed, the date owed, the dates of payment, and everything having to do with the collection. It may be that the Auditor General would want to know whether a man owned property. He could certainly find that out from the officers who would give him information of that nature, in order to show whether they were or were not efficient in the collection of the particular account. I am quite sure that the Auditor General has had that information in the past. This is the first time it has been raised, or that I believe I knew of it; and acting in accordance with the best interests of the department, I believe I was acting in accordance with the precedents and practice since the year one—and in accordance with the practice which prevails in Great Britain today.

Mr. LEWIS: You have said that the Auditor General might have these three files today?

Mr. NOWLAN: As far as I am concerned, if they were collection files, surely; but subject to the condition that in any report he sees fit to write he would not disclose the name of the taxpayer.

Mr. LEWIS: He has taken note of not to do that under the act.

Mr. NOWLAN: Subject to that, there is no reason why he should not see the files today, or at any time at all.

Mr. SMITH (*Simcoe North*): Were these three files brought to your attention at your request or by the deputy minister?

Mr. NOWLAN: They were brought to my attention by the deputy minister.

Mr. SMITH (*Simcoe North*): Was the doubt as to the propriety of disclosing these three files by giving them to the Auditor General first raised by you or by the deputy minister?

Mr. NOWLAN: Well, I do not think I should discuss it. After all, we take that position in the House of Commons. I do not think I should discuss communications. I am prepared to answer, if the committee thinks that I should, but I doubt whether I should disclose confidential communications which go on between an officer of the department and the minister.

Mr. SMITH (*Simcoe North*): When you refer to the personal files of a taxpayer you mean, I presume, the file of the taxpayer up until the time that assessment is made against him. Is that right?

Mr. NOWLAN: Oh yes, I suppose so, but I do not know. I never saw a file all the time I was in that position. I refused to look at any. The deputy minister sometimes would have them in his hands. But I never saw these files referred to; they never came to my office. The deputy minister had them in his office, I presume. It is just a figure of speech to say that I looked at the files, or that I would stick them in a safe in the wall, and all that. I never heard of them. In fact, there was only five minutes discussion about it with the deputy minister. And I thought I was acting in accordance with the practice established throughout the years. You can guess pretty well that I was believed by the deputy minister.

Mr. BENSON: Did you, in fact, obtain a legal opinion?

Mr. NOWLAN: No.

Mr. BENSON: Am I to understand that the files are now available to the Auditor General?

Mr. NOWLAN: If they are collection files, they are.

Mr. BENSON: Would you maintain that assessment files should not be made available to the Auditor General?

Mr. NOWLAN: I do maintain that.

Mr. BENSON: The Auditor General is the watchdog of parliament, and it is his duty to review the revenues and expenditures of the Department of National Revenue, as well as to review the revenues and expenditures of the other and various departments of government. Now, would it not destroy the value or duty of the Auditor General if assessment files were not made available to him in order for him to carry out his functions?

Mr. NOWLAN: I have never been Auditor General. I know there have been auditors general, down through the years, since the time the Income Tax Act was passed. Somebody says, "In 1947 Mr. Brown changed it". If he did, I do not think the date is very well known in the department. But at least down to 1947 the Auditor General appeared to work with them—as I believe the auditor general does in Great Britain, and of course the Auditor General does here too; and during the last few years of Mr. Watson Sellar's term, I never heard any question about it. If it had been raised, I am sure the deputy minister would have brought it to my attention the first time it was raised. But instead of that, it was not raised until 1961.

Mr. BENSON: How can the Auditor General verify the revenue and expenditures of the Department of National Revenue if he cannot look at the tax files?

Mr. NOWLAN: He has access to all departmental files. He can check our procedures. He has access to everything in the department such as the statistics and the records. Moreover, I have no doubt that he would be told by the officers who would answer and give him any information that he really wanted. If it were a question of collection, it would be as to the man's salary, his owning property, and this and that. There are some files which would have tricky information in them. I am thinking of files which would contain information about peoples' domestic and private lives, in particular and various ways, and I do not think the Auditor General would want—and certainly would not need—to have them in order to carry out his duty. But anything he needed in order to carry out his duty, I think, he should be entitled to have and to know, excepting private information respecting the taxpayer.

We have, let us say, 6 million or more individual taxpayers. We have the self-assessment system. We have to depend upon the co-operation of the taxpayer 99 per cent, let us say, just picking a figure out of the air. I think they assess themselves as accurately as they can. They sometimes make mistakes, sometimes against themselves and sometimes in their own favour. But you have to operate with them on the basis of complete confidence to as great an extent as possible, and to get the support and co-operation of the taxpayer.

Mr. A. M. HENDERSON (*Auditor General*): May I clear up a point for the information of the committee, Mr. Chairman?

The CHAIRMAN: I do not think it is good practice to interrupt testimony. I think you had better wait. We will give you an opportunity to speak later.

Mr. BENSON: I am not interested in the Auditor General assessing. It is not important as such. You may bring out the point time and time again that he cannot assess; but that is not a duty falling upon the Auditor General. It is his duty to verify the revenues. But from what I gather you have said this morning you think that the Auditor General should not have made available

to him assessment files which are necessary in order for him to verify the revenues of the Department of National Revenue. Am I correct?

Mr. NOWLAN: I say that the Auditor General should not have available to him the personal files dealing with the personal affairs of the taxpayer. But when it comes to collection—if it is a collection file, as apparently it is—I did not know these were collection files, because they were referred to as simply files of taxpayers. But if it is a collection file then that would naturally be available to him.

Mr. BENSON: You maintain that there should be available in the Department of National Revenue assessment files on the one hand and personal files on the other which should not be made available to the Auditor General?

Mr. NOWLAN: That is my opinion. That was the practice of the department in the past.

Mr. BENSON: It has been the practice up to this date?

Mr. NOWLAN: It was the practice, I understand, right down to 1961. I was told that in 1947 Mr. Brown denied it.

Mr. LEWIS: That is right.

Mr. NOWLAN: I do know that in 1947 the Auditor General was refused files, according to a letter of which I have a copy available. The Auditor General of that day wrote, I presume but I am not sure, the chairman of the public accounts committee saying he could not get this information because it was contrary to the policy of the department to allow him access to files. This is only inference on my part, but apparently after that the deputy minister of national revenue changed his ruling and gave the Auditor General access to those files at that time. However, it is true it happened in 1947. I do not have the letter with me, but I could get it.

Mr. BENSON: This statement of the minister's this morning to the effect that the assessing files should not be available to the Auditor General, it appears to me, would be in direct conflict with the statements made by Mr. McEntyre and the Auditor General at our last meeting that they were available.

Mr. NOWLAN: If they were available, why was the question raised?

Mr. LEWIS: Because they were refused for the first time.

Mr. NOWLAN: Who refused them?

Mr. LEWIS: You, sir.

Mr. NOWLAN: I did not refuse them. I did not know anything about it until the deputy minister refused them. He brought it to me. That was the first time it was raised. If they had been granted every year, I do not know why I never heard of them.

Mr. BENSON: Could I direct a question to the Auditor General?

The CHAIRMAN: With the consent of the committee, because it is very upsetting to a witness to come back and forth and pit one witness against another.

Mr. BENSON: Can the Auditor General effectively carry out an audit without having the assessment files available to him?

Mr. HENDERSON: I think my officers would agree with me when I say we could not. May I add one more word at this point. I would merely like to say that 16 years of practice has continued. As I explained on Tuesday, and as my officers will confirm to you, in no respect whatever have I, since my appointment on March 1, 1960, altered or changed the practices followed by my predecessor in connection with all audit programs affecting the taxation division. I wanted to say this, sir, because of the suggestion that as a new Auditor General I might have had different views. The only point

that arose was denial of access to these files for the first time. Therefore, under section 66 of the Financial Administration Act I thought it was something on which I should take a view.

Mr. ASSELIN: Mr. Minister, you made the point of the supposed difference between assessing, or as you termed it personal file, and the collection file. Up to the present time it has been my understanding that this was just a question of loss of time, and that the collection file contains all the assessing information to which may have been added some procedure involving collection. I am unable to distinguish or understand the distinction you gave between allowing the Auditor General access to the collection file and not the file as it existed prior to it becoming a collection file.

Mr. NOWLAN: Well—

Mr. ASSELIN: My question is: Could you clear up this problem in my mind and in the mind of the committee?

Mr. NOWLAN: I understood from the deputy minister that these three files were accounts, if there were three, which were sent here for collection purpose, and that a collection file had been opened for them; and I understood that from the discussion raised during the last few days. Had I known these were something for a collection purpose, or of a collection file nature, there would have been nothing in there not disclosed to the Auditor General. I assumed the assessing file was still at the district office, whether Halifax, Vancouver or elsewhere. I understand from the deputy minister that these accounts were sent to head office for collection because collection could be effected easier in Ottawa than in the area where the taxpayer had his home.

Mr. ASSELIN: But we have been given to understand that the Auditor General has a right to see every file in the district office, and has seen them up to the present time, and the sole difference between a collection file and a district file is that it has been sent forward for collection. It is a matter of loss of time. I am unable to see the distinction made this morning by your division now, which you have just made a few moments ago, to allow access to collection files. I would like to point out that I am not interested in these three files, but rather in the general principle which is at stake here. You now feel that you can allow access to a collection file which I understand does contain the information that you happened to feel should be withheld. There is a slight contradiction. I understand also that you are in a difficult situation because you have not had, perhaps, access to all the testimony of our last hearing.

Mr. NOWLAN: I think you are right in talking about the assessment file ordinarily; but as I said, I understood that these three files of these three taxpayers had the amount of the assessment in them and apparently had my letters, or letters from the deputy minister, and things currently which would be purely for collection purposes. Let me repeat, I did not know until Mr. McEntyre gave evidence here the day before yesterday that it ever had been the practice of the department to disclose these files.

Mr. ASSELIN: The reason was advanced in the previous testimony that the cause of this situation arose because of your letters on the file, and that up until this time it has been the practice to disclose these files to the Auditor General. This is the point.

Mr. NOWLAN: Yes; I can quite see that.

Mr. ASSELIN: But it is not, I understand, in your opinion the only reason for withholding the files.

Mr. NOWLAN: Of course not. As I said, I do not understand that, because in every year that I was minister prior to this there were files with similar letters

in them, and some years quite a few more files than these three. So, if they are being withheld because I happened to have a letter on file, or a copy of a letter dictated by the deputy minister which I signed, I do not know why this was not done in 1957, 1958, 1959 and 1960, because the same situation prevailed in each of those years.

Mr. ASSELIN: I will go one step further. Since you now feel that collection files which contain these other assessment files should be made available to the Auditor General, would you now agree that the original file should be made available?

Mr. NOWLAN: I do not think I would agree to that; it is not for me one way or the other now.

Mr. ASSELIN: That appears to have been the practice.

Mr. NOWLAN: That appears to have been the practice in the past—practice apparently of Mr. Brown.

Mr. ASSELIN: Up until now.

Mr. NOWLAN: I question that. At least that was not the information I had.

Mr. ASSELIN: The information we had.

Mr. NOWLAN: I think if in going into this thing we had found the memorandum of Mr. Brown, perhaps this question would never have been asked. Certainly I did not know it. If you ask what my opinion is—and I do not think this committee is very much interested in my opinion in this matter—I would feel there is a direct conflict in the statutes and that the statutes should be so amended that the personal information in respect of a taxpayer should be withheld from even the Auditor General.

Mr. LEWIS: I respectfully disagree.

Mr. NOWLAN: That is your privilege. If you were the minister in charge of the Department of National Revenue and receiving the co-operation of the people of Canada, even if that amendment might be very difficult to interpret and perhaps be difficult to apply, I think it would be helpful in the administration of the department for the taxpayers to believe that was in there so they would know it was there and in some cases you would get more co-operation.

Mr. ASSELIN: How many thousands of employees does the department have who have access to these files?

Mr. NOWLAN: I think we have 7,000 employees.

Mr. ASSELIN: They are all sworn to secrecy?

Mr. NOWLAN: I do not know.

Mr. ASSELIN: I presume those who have access are.

Mr. NOWLAN: I presume they are. I was.

Mr. ASSELIN: Do you feel in view of the fact that the Auditor General who is representing parliament also has been sworn to secrecy, that this would further jeopardize the private nature of these?

Mr. LEWIS: Three officers. You would be adding three officers.

Mr. NOWLAN: I am sure many taxpayers are very suspicious that the information contained in their files will become more or less public property. I am not referring to the leading taxpayers of the country, not the most intelligent ones, but many many taxpayers believe that anything they put in those files, as I said, is going to become more or less public property. Many taxpayers believe that the Minister of National Revenue does not have to pay any income tax. My constituents on occasion have said to me that I am collecting income tax from everyone else but surely I do not have to pay it myself. There are all sorts of strange and weird beliefs held in respect of income tax.

Mr. LEWIS: Or any other thing.

Mr. NOWLAN: Yes, as far as that goes, that is true.

Mr. ASSELIN: But by the same token, Mr. Minister, would you not agree that many taxpayers would be entitled to equal suspicions if the Auditor General were not allowed access to a file—

Mr. LEWIS: Hear, hear.

Mr. ASSELIN: —and are carried out legally—and by that statement I am not suggesting they are not.

Mr. LEWIS: And, uniformly.

Mr. ASSELIN: Yes, and that the law is being applied uniformly. I would think that the taxpayers of whom you have spoken normally would be just as suspicious and perhaps a little more so. Would you not agree with this?

Mr. NOWLAN: No, but that is a good argument.

Mr. ASSELIN: I thought so, too.

Mr. NOWLAN: It sounds like logic. But I can tell you this—and I am sure the taxpayers of this country know it—the officers of the Department of National Revenue are very, very efficient in their collection policies; many taxpayers probably think too efficient. We have a class of public servants of whom this country can be very, very proud. These officers are dealt with most rigorously by the deputy minister and then by the minister. Even in the case of an error of not major importance in connection with the discussion of the taxpayers' returns and anything of that kind the man would be fired automatically. The deputy minister would not tolerate anything like that for a second. I am sure there is no suspicion in the minds of the public in respect of the Department of National Revenue except that sometimes they think they are all too hard-boiled and too efficient.

Mr. ASSELIN: Of course, this committee would agree with you, Mr. Minister; however, I think we are discussing a question of principle as to whether the Auditor General should have access to the files, and I take it from the way you have answered these questions that you really agree that he should have.

Mr. NOWLAN: I agree he should have access to those files, yes.

Mr. ASSELIN: Well, that settles the issue.

Mr. McGEE: Mr. Chairman, before we proceed have we satisfied ourselves on this question?

The CHAIRMAN: Well, time is short. Could we abbreviate this a little?

Would you ask your question, Mr. Olson?

Mr. OLSON: Mr. Chairman, I am disturbed too, about this distinction between what has been referred to as personal files and what has been referred to as collection files.

Section 66—and I would like to read this one part of it—says:

Notwithstanding any act, the Auditor General is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every department.

Mr. NOWLAN: Yes.

Mr. ASSELIN: Now, do you suggest, sir, that personal files are not records relating to the accounts?

Mr. NOWLAN: I think that can be argued easily enough.

Mr. ASSELIN: Where is the record?

Mr. NOWLAN: I do not think that is the strength of the Auditor General's case; there is another section which is stronger, in my opinion.

Mr. OLSON: That relates to the personal income tax accounts which would divulge that a correct assessment had been made. If these files are not part of the records relating to the accounts which the Auditor General is charged with checking, then where is the record that he has access to which relates to the personal income tax account which would divulge that a correct assessment had been made?

Mr. NOWLAN: There are two sections involved, and I think the other is the strongest and most pertinent, according to my recollection.

Mr. OLSON: You stated that the Auditor General should be interested only in collection but at the same time he has a statutory responsibility and I quote:

—shall ascertain whether in his opinion (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,—

Mr. NOWLAN: The Auditor General himself refers to these as taxation collection files.

Paragraph 95 of the Auditor General's report is headed: "Access to taxation collection files refused", and the Auditor General in his report states:

As such a step indicated a failure of normal collection procedure, we requested the relative Head Office collection files for audit examination.

As I said, I did not know that there were collection files. I may be wrong but I feel that the only distinction here is that these files were sent here so the moneys could be collected and a clerk in the office opened the three files of these taxpayers. Whether there was an assessment included, or whether it was just a notation that the taxpayers owed X dollars, I do not know, but it was for the purpose of collection. That is what the Auditor General was referring to in his report. In other words, the Auditor General was looking at the nature of the collection, and in that he is perfectly right. There is no question about that at all. In that regard, as I understood it before and as I think other people understood it until very very recently, he could satisfy himself in respect of the collection. From a collection point of view the files are always open to him. As I said before, that is the reference to the questioned files. Back in the different districts there probably is not a collection file as such. These files are being sent to Ottawa for collection. As I said, there are hundreds, and on Saturday I signed 20 orders in this regard.

An hon. MEMBER: Are these answers or speeches we are hearing?

Mr. OLSON: Mr. Chairman, we are not receiving answers to the questions we are asking. I would like to return to the main point. I am very interested in these three files in question.

Mr. NOWLAN: I said that they are referred to as collection files here.

Mr. OLSON: I have difficulty in understanding the situation because of the distinction you are making between so-called personal or assessment files and collection files. If I have understood you correctly you have stated that the Auditor General should be refused access to the assessments or personal files. The Auditor General is charged under statute with the responsibility of securing an effective check on the assessment, collection and proper allocation of revenue.

Mr. NOWLAN: That is right.

Mr. OLSON: Do you now agree then that in discharging his responsibility he should perhaps at least make some spot checks on assessments?

Mr. NOWLAN: I do not know.

The CHAIRMAN: Mr. Olson, would you give us the reference to the section you have just read? I presume it is a section of the Financial Administration Act?

Mr. OLSON: Yes, and the Auditor General quotes his responsibilities at page 43 of his report. These responsibilities are set out in section 67 of the Financial Administration Act.

The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the consolidated revenue fund and to public property and shall ascertain whether in his opinion—and then in subsection (b):

- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,

Mr. NOWLAN: I do not think the word “assessment” refers to assessment of income tax. It can be argued. Certainly he has the right and duty and he does carry out the responsibilities under subsection (b), and all public money has been fully accounted for. He does not need an income tax file to determine that:

—rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue.

Mr. OLSON: What would that word “assessment” be applied to if it does not mean assessment of taxes?

Mr. NOWLAN: I think it is the assessment, collection and proper allocation of the revenues, not the assessment itself but the allocation. The collection, as I said, is certainly open to it; it should be and it is.

Mr. OLSON: Mr. Chairman, I have one other question. It seems to me in the evidence that was given here the other day we, the committee, were reasonably well satisfied that all of these collection files and assessment files had been made available to the Auditor General, the district officers and even the head office prior to this particular incident. Now, is it a correct or a fair statement that the legal opinion that was required was whether or not the minister had the power to decide to withhold certain selected files, because apparently prior to this time there has been no withholding of files?

Mr. NOWLAN: If I had asked the Department of Justice for a legal opinion I would have asked for one not in these particular cases but as to the release of any taxpayers' files to the Auditor General.

Mr. OLSON: But in practice these assessment files and collection files previous to this incident had been made available; therefore the question boils itself down to whether or not the minister can take selected files and withhold them. This has been done as a matter of fact but now we run into three files that have been withheld.

Mr. NOWLAN: Certainly the minister has no right to withhold selected files.

Mr. OLSON: That is what has been done.

Mr. NOWLAN: It was done in this case because I believed that it was in accordance with the practice which was followed by the department.

Mr. OLSON: That is in contradiction of the testimony we had because the testimony we had was that these collection and assessment files had been made available to the Auditor General up to this time.

Mr. NOWLAN: I realize that now after Mr. McEntyre gave evidence here the other day. It certainly was not the practice up to 1947. We have documentary evidence to that effect. It was refused every time, and apparently it was in 1947 under Mr. Brown that a change was made. Now, Mr. Brown was

here and he is now retired, and what happened after Mr. Brown left I do not know. Apparently, the ruling still stood but it was the first time I heard about the ruling when I heard Mr. McEntyre's evidence. Someone came to me and showed it to me. That is the first time I heard about it. Mr. Brown undoubtedly made the ruling and it may have been followed consistently or it may have been overlooked. I do not know why, if it was followed, this matter was brought to my attention. That is one question I cannot understand.

Mr. OLSON: I would appreciate it if the minister would quote us the statute that he presumed would supersede section 66 of the Financial Administration Act giving him the power to withhold these files.

Mr. NOWLAN: I am not saying any statute supersedes it. There is conflict there.

Mr. OLSON: It must take precedence over this one.

Mr. NOWLAN: That is a question for debate. There is conflict between the Financial Administration Act and the National Revenue Act. The Financial Administration Act was amended in 1951 and was made stronger than it ever was before. There is not much difference but there was some change in wording. After 1951 the situation developed and was brought into the statute but it was never there before. I am not saying one supersedes the other for one minute but I am saying there is a conflict between the National Revenue Act and the duties it imposes on the minister and all the officials and the Financial Administration Act.

Mr. OLSON: If you think there was a conflict why did you not get a legal opinion?

Mr. NOWLAN: Because I felt that an opinion was not necessary. I felt that if there was a conflict there and if it was pushed, shall we say, then it was a matter that should be realized and the statute should have been amended to avoid it. I acted in accordance with what I believed to be the practice of the department and under precedents which had been established away back in 1917.

Mr. OLSON: I would like to know that statute.

Mr. NOWLAN: It is the Income Tax Act, section 133.

The CHAIRMAN: Mr. Lewis, you handed me a note.

Mr. LEWIS: I would like to move a motion. If I have the floor, I would like to move that the Auditor General be requested by this committee to inspect the three files referred to in paragraph 95 of this report and that he report to this committee anything which in his judgment should be brought to its attention with respect to the contents of the said files. I am not asking the Auditor General to tell us anything except that which, in his judgment, should be brought to the attention of parliament. If he decides there is nothing in the files which deserves our notice, he will come and say "there is nothing in them".

The CHAIRMAN: Have you a seconder?

Mr. MCGEE: Mr. Chairman, the implication of that motion is that there is a situation where the Auditor General is not doing his job, and that is not necessary.

Mr. LEWIS: I am sure the Auditor General can take it. He is not worried about it.

The CHAIRMAN: It is a difficult motion and while we have authority to ask witnesses to come, it is questionable whether we can give instructions over the head of the minister.

Mr. LEWIS: I have deliberately worded my motion so that it is not instructions. I said that the Auditor General be requested.

Mr. SMITH (*Simcoe North*): It must be out of order, Mr. Chairman, because the Auditor General takes an oath of secrecy that he is not to disclose anything that is in a taxpayer's file. He takes the same oath that Mr. McEntyre takes. Mr. McEntyre could not discuss anything that was in the files, the other day. So the Auditor General cannot.

Mr. NOWLAN: I cannot.

Mr. SMITH (*Simcoe North*): He is bound by exactly the same oath as members of the department. It is perfectly all right for him to inspect the files; but the portion of the motion which deals with reporting anything he thinks is relevant to the committee is in direct conflict with his oath.

Mr. LEWIS: Surely you must assume that the Auditor General is at least as competent as Mr. Smith to decide what his oath means to him, and what he can reveal to this committee and to parliament without violating his oath. I am not suggesting that the Auditor General do anything unless it falls entirely and properly within his duties. If there is nothing to hide, and the minister tells me there is nothing to hide, I accept his word. I ask the members of this committee of whatever party to agree to this motion and let us lay this suspicion which everybody cannot avoid having in his mind.

The CHAIRMAN: I wonder if the committee would give me three minutes time to consider it, because there is quite a precedent involved.

Mr. McILRAITH: There is one matter, before you consider it: it is the question of procedure here. We have before us paragraph 95 of the Auditor General's report relating to these files, and the Auditor General is the witness before us. It is a matter of whether we request to have this done before the next meeting and report by way of an explanation with respect to paragraph 95. I am not concerned; I do not think there is any difficulty about the legality of it, but there may be some point as to the way we are doing this, in making a request, when there is a witness now before us. I am a little troubled by that point which is very small and narrow.

Mr. LEWIS: I can make it a request of the Auditor General instead of making a motion.

The CHAIRMAN: The question is whether the Auditor General has the right to inspect these files.

Mr. LEWIS: The minister said that as far as he was concerned, he would withdraw his objections.

The CHAIRMAN: If the minister consents, then the situation does not arise.

Mr. NOWLAN: Well, I am no longer the minister.

The CHAIRMAN: That is a very good point. I think in view of the seriousness of it that this is a point to be decided.

Mr. LEWIS: Take it under advisement, and if parliament is still in session, you can tell us about it at the next meeting.

The CHAIRMAN: I would like to take it under advisement. Is there a seconder?

Mr. MACDONALD (*Rosedale*): I second the motion.

The CHAIRMAN: Mr. Macdonald is the seconder, yes.

Have we finished with the minister?

Mr. COWAN: There is one thing I would like to say.

Mr. MUIR (*Lisgar*): Part of my question has been answered. We have been discussing the distinction between a proposal and a collection file. I would like to clear up this matter. Is this a personal file we are talking about? Are these particular files personal files?

Mr. NOWLAN: I never saw the file, but Mr. McEntyre tells me now that he informed the committee when he was here the other day that these were personal files.

Mr. MUIR (*Lisgar*): That is what I am trying to clear up. I understand they were personal files and not collection files.

Mr. LEWIS: Mr. Chairman, may we clear this up. I think the "personal" Mr. McEntyre was talking about was one person as distinct from a corporate person; not the distinction you made.

Mr. NOWLAN: I did not make the distinction. Now Mr. McEntyre tells me he meant personal as distinct from corporate.

Mr. MUIR (*Lisgar*): In other words, they were personal collection files.

Mr. NOWLAN: I know less about this matter than anyone sitting around this room.

Mr. MUIR (*Lisgar*): They were personal collection files.

Mr. LEWIS: Hear, hear. That's it.

Mr. Muir (*Lisgar*): If I may, I would like to ask the Auditor General a question following on this.

Mr. NOWLAN: Wait until I get through here.

Mr. MUIR (*Lisgar*): I will pass that.

Mr. BENSON: Mr. Chairman, before this matter is closed off, I would like to object to the fact that this matter was ever raised in this committee and some four or five hours of our time wasted when it could have been cleared up by the minister talking to the Auditor General about this, because he immediately releases the files when he comes to this committee. I maintain this should have been done earlier and that it should not have been necessary for the Auditor General to insert such a matter in his report. The time of parliament and of members of parliament has been wasted merely because there was a matter of difference between the minister and the Auditor General.

Mr. NOWLAN: I quite agree with that. I also understand that this whole thing was discussed between the deputy minister and the Auditor General on a very open basis.

Mr. McGEE: Mr. Chairman, I came to this committee, as a result of the reference, to determine two things. The first is whether the Auditor General has the tools he needs to discharge the duties of his office. I am satisfied that he has. The other thing raised is the suggestion that all tax payers are equal and that some are more equal than others. I think this has been dispelled as well. Now, I would like to make a comment in respect of Mr. Lewis' motion. It is a clever motion in a sense, but is clearly redundant and does not serve any purpose beyond the fact that we have already established that the Auditor General, who has our confidence, has the tools to do his job.

Mr. COWAN: I would like to ask a question of the deputy minister—

Mr. SMITH (*Simcoe North*): I thought we were going to finish with the minister first.

The CHAIRMAN: The deputy minister will be coming on next. Is there anything else to be directed to the minister? He is rather occupied these days.

Mr. COWAN: Under section 66 of the Financial Administration Act, notwithstanding any act, the Auditor General is entitled to free access at all convenient times to all files, documents and other records. The minister states today that he did not know that the practice was to release these documents; does he not feel that as a lawyer he should have been acquainted with subsection 66 of the Financial Administration Act?

Mr. NOWLAN: I was well acquainted with subsection 66 of the Financial Administration Act and I was also well acquainted, as I say, with the practice

which prevailed in the department from the year one in the interpretation of these things.

Mr. COWAN: But income tax was not introduced until 1917.

Mr. NOWLAN: And I am also acquainted with how it prevails in the United Kingdom today, and under these same statutes as we have here.

Mr. COWAN: There is no exception made in the case of personal files at all; it says "all files".

The CHAIRMAN: Have you a question Mr. Forbes?

Mr. FORBES: Yes. The former minister of national revenue says the Auditor General can have possession of these documents now; in view of the fact that Mr. Nowlan is not the present Minister of National Revenue how can he turn them over to him?

Mr. NOWLAN: The present Minister of National Revenue will have to speak for himself.

Mr. GRAY: Then we may have to go over all this again with the present Minister of National Revenue.

Mr. NOWLAN: Well, I am not the Minister of National Revenue now.

Mr. GRAY: But you are a member of the cabinet and should have some responsibility in this.

Mr. NOWLAN: I suppose, but it is a matter of administration.

Mr. LEWIS: Mr. Nowlan, through the deputy minister, instructed that these files be not made available and now Mr. Nowlan says that as far as he is concerned he made a mistake.

Mr. NOWLAN: I did not say I made a mistake at all.

Mr. LEWIS: I thought you said, Mr. Nowlan, you thought they were personal files but you now learn they are collection files and the distinction you make between them leads you to conclude the collection files should be made available—and I urge you not to retreat from that and to make them available, Mr. Minister.

Mr. NOWLAN: I am not retreating from anything. I stated if it was purely a collection file. Mr. McEntyre told me just the night before he came on the stand that it was a collection file with the name of the taxpayer on it, and obviously there was nothing there that anyone could refuse to give.

Mr. LEWIS: Precisely; let the Auditor General see them.

Mr. NOWLAN: But I am not saying I made a mistake in refusing them originally because I had no reason to believe that that was the practice which prevailed in the department since it first started.

Mr. CHAIRMAN: Mr. Lewis, it is the custom that no politicians make mistakes.

Mr. LEWIS: I beg your pardon.

Mr. GRAY: Mr. Chairman, I would like at this time to direct a question through you to the deputy minister. Does he know—

Mr. LEWIS: Order, order.

The CHAIRMAN: Have you finished? Is your question being directed to the minister or the deputy minister, Mr. Gray.

Mr. GRAY: I will hold it.

Mr. CARON: Perhaps members should be allowed to address questions at this time to the deputy minister while the minister is present and then, if necessary, we could go back to the minister, because at the next sitting the minister may not be here.

Mr. GRAY: Does the deputy minister now consider himself sufficiently instructed to produce these files to the Auditor General.

Mr. J. GEAR McENTYRE (*Deputy Minister, Department of National Revenue, Taxation Division*): I think in all fairness I should at least consult my present minister.

Mr. GRAY: Mr. Chairman, we are no further ahead now than we were when we started.

Mr. LEWIS: Perhaps we will be further ahead shortly.

Mr. GRAY: We are no further ahead now than when we started particularly after that answer given by Mr. Nowlan.

The CHAIRMAN: The witnesses have appeared here in good faith and have answered questions to the best of their abilities. They deserve the benefit of any doubt.

Mr. GRAY: Mr. Chairman, I was not imputing the good faith of these individuals who have appeared, but we certainly are not any further ahead from the point of view that the Auditor General will have access to those files.

The CHAIRMAN: It is quite reasonable for the deputy minister of national revenue to say that he would like to consult with his present minister before answering that question.

Mr. LEWIS: That is perfectly right, Mr. Chairman.

Mr. COWAN: Mr. Chairman, you asked me to defer a question directed to the deputy minister because the minister was giving evidence, but you have allowed a question to the deputy minister. May I now ask the question I had in mind?

The CHAIRMAN: Yes, absolutely.

Mr. COWAN: The deputy minister told us that he advised the minister that it was arguable that personal files should not be disclosed to the Auditor General. I should like to ask the deputy minister when those files became personal. Did they become personal when the taxpayer wrote in and marked the correspondence as being personal or when the minister replied to the taxpayer marking his reply personal?

Mr. LEWIS: That is not what Mr. McEntyre said.

Mr. McENTYRE: I was aware that the minister had had correspondence in respect of the files in question and for that reason I felt that he should know that the Auditor General had requested these files before releasing them to the Auditor General.

Mr. COWAN: Did the files become personal when the taxpayer wrote to the department or not until the minister replied?

Mr. McENTYRE: I do not know exactly what you mean by "personal". These were files in which the minister was interested because he had correspondence in respect of them, and for that reason I felt that he should know that the Auditor General had requested them.

The CHAIRMAN: Gentlemen, on your behalf I should like to thank the minister for appearing before us this morning.

I suggest that we meet next Tuesday morning if possible.

OFFICIAL REPORT OF PROCEEDINGS AND EVIDENCE

This edition of the Minutes of Proceedings and Evidence contains the text of Evidence in the language in which it was given, and a translation in English of the French texts printed in the Evidence.

HOUSE OF COMMONS

First Session—Twenty-fifth Parliament

1962-63

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. ALAN MACNAUGHTON

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, FEBRUARY 5, 1963

Auditor General's Report for the Fiscal Year ending March 31,
1962, including the Second Report to the House

WITNESSES:

Mr. J. G. McEntyre, Deputy Minister (Taxation), Department of National Revenue; Mr. M. Henderson, Auditor General of Canada; Mr. Ian Stevenson, Assistant Auditor General of Canada; Dr. M. Ollivier, Law Clerk and Parliamentary Counsel; Miss R. Addison, Acting Chairman, Civil Service Commission; Mr. P. Pelletier, Commissioner, Civil Service Commission.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1963

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. Alan Macnaughton

Vice-Chairman: Mr. Lloyd R. Crouse

and Messrs.

Asselin,	Gauthier,	Muir (<i>Lisgar</i>),
Beaulé,	Godin,	Noble,
Benson,	Gray,	Olson,
Cadieux (<i>Terrebonne</i>),	Hales,	Perron,
Cameron (<i>Nanaimo-</i>	Hellyer,	Pigeon,
<i>Cowichan-The Islands</i>),	Horner (<i>Jasper-Edson</i>),	Pugh,
Caron,	Lessard (<i>Saint-Henri</i>),	Rapp,
Chaplin,	Létourneau,	Rochon,
Cowan,	Lewis,	Rondeau,
Davis,	Macdonald (Mrs.),	Scott,
Drury,	Macdonald (<i>Rosedale</i>),	Skoreyko,
Dubé,	MacRae,	Smith (<i>Simcoe North</i>),
Dupuis,	McCleave,	Stefanson,
Fleming (<i>Okanagan-</i>	McGee,	Teillet,
<i>Revelstoke</i>),	McGrath,	Tucker,
Forbes,	McIlraith,	Winch—50.
Frenette,	Moore,	

(Quorum—10)

R. L. Boivin,

Clerk of the Committee.

REPORT TO THE HOUSE

TUESDAY, February 5, 1963.

The Standing Committee on Public Accounts has the honour to present its

SECOND REPORT

In its Order of Reference dated January 23, 1963, the House has referred to this Committee, *inter alia*, the Report of the Auditor General for the fiscal year ended March 31, 1962.

At its meeting of January 29, 1963, your Committee agreed to give priority to two items contained in the said Report, namely, paragraph 95 entitled "Access to taxation collection files refused", and paragraph 21 entitled "Recruitment of Audit Office Staff".

Your Committee held four meetings on these matters and examined the following witnesses: The Honourable George C. Nowlan, Minister of Finance; Mr. M. Henderson, Auditor General of Canada; Mr. J. G. McEntyre, Deputy Minister (Taxation), Department of National Revenue; Dr. M. Ollivier, Law Clerk and Parliamentary Counsel; Mr. Ian Stevenson, Assistant Auditor General and Messrs. G. R. Long, C. E. Cheney, M. Laroche, of the Auditor General's office; Miss Ruth Addison, Acting Chairman, Civil Service Commission; Mr. Paul Pelletier, Commissioner, Civil Service Commission.

The Committee notes with pleasure that the files referred to in Section 95 of the said Report have this day been made available to the Auditor General.

The Committee also heard Dr. M. Ollivier, the Parliamentary Counsel, on the interpretation of certain provisions of the Income Tax Act, and Section 66 of the Financial Administration Act, in which he expressed his opinion that Section 66 of the Financial Administration Act since it was enacted in 1951 took precedence over Section 133 of the Income Tax Act enacted in 1948.

The Committee, however, recommends that further consideration be given by the law officers of the Crown as to whether any changes which might be considered necessary to remove any existing doubts as to interpretation of the above mentioned Act be proposed to the House.

The Committee on two previous occasions has recommended that immediate attention be given to the problem of recruitment of staff by the Auditor General and sees no reason at the present time to alter its recommendations made in two previous years. (See Third Report 1960, and Fifth Report 1961).

The Committee gave consideration to Section 65 of the Financial Administration Act and to Section 74 of the Civil Service Act.

The Committee is of the opinion that consideration be given to amending Section 65 of the Financial Administration Act so as to authorize that the Auditor General recruit and manage his own staff with the approval of the Treasury Board and that in the meantime the Civil Service Commission should immediately reconsider its position with respect to Section 74 of the Civil Service Act, since the Committee is convinced that the special character of the Auditor General's work requires that this be done.

A copy of the Minutes of Proceedings and Evidence relating to these two items is appended.

Respectfully submitted,

ALAN MACNAUGHTON,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, February 5, 1963.

(5)

The Standing Committee on Public Accounts met this day at 9.35 o'clock a.m. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Asselin, Benson, Cameron (*Nanaimo-Cowichan-The Islands*), Caron, Cowan, Crouse, Forbes, Hales, Hellyer, Lewis, Macdonald (*Rosedale*), Macnaughton, MacRae, McCleave, McGee, Moore (*Wetaskiwin*), Muir (*Lisgar*), Noble, Olson, Smith (*Simcoe North*), Stefanson, Tucker.—(22).

In attendance: Mr. J. G. McEntyre, Deputy Minister (Taxation), Department of National Revenue; Mr. M. Henderson, Auditor General of Canada; Mr. Ian Stevenson, Assistant Auditor General of Canada; Dr. M. Ollivier, Law Clerk and Parliamentary Counsel; Miss R. E. Addison, Acting Chairman, Civil Service Commission; Mr. P. Pelletier, Commissioner, Civil Service Commission.

The Chairman called the meeting to order and the Committee resumed consideration of a motion moved by Mr. Lewis, seconded by Mr. Macdonald (*Rosedale*), during the meeting of Friday, February 1, 1963, and taken under advisement by the Chairman at that time, namely:

That the Auditor General be requested to inspect the three files referred to in paragraph 95 of his Report, and report to this Committee anything which, in his judgment, should be brought to its attention with respect to the contents of the said files.

The Chairman ruled the said motion out of order. (*See Evidence*).

Following the ruling by the Chairman, Mr. McEntyre stated that the Minister of National Revenue had directed that the said three files be made available to the Auditor General for his inspection and Mr. Henderson stated that arrangements have been made to have the files examined later this day.

The Chairman then called Dr. Ollivier, who was examined on the alleged conflict between the provisions of the Income Tax Act and the provisions of the Financial Administration Act. Mr. McEntyre was further questioned on the same matter.

After further discussions, the Committee decided that sufficient evidence had been gathered on paragraph 95 of the Auditor General's Report for the year ending March 31, 1962, and agreed to proceed to the consideration of paragraph 21 of the said Report.

The Chairman called Mr. Henderson as the first witness on this matter. The witness made a statement and was questioned thereon.

Resolved,—That the Committee print as an appendix to today's Minutes of Proceedings and Evidence (*See Appendix "A"*) a document submitted by the Auditor General and entitled "Notes explaining the Background and Development of the Audit Office Approach to Its Work over the Past Three Years and the Status of This Work at the Present Time".

The Chairman then introduced to the members of the Committee Miss Addison and Mr. Pelletier, representing the Civil Service Commission.

At the invitation of the Chairman, Miss Addison made a statement relating to the matter under consideration and was questioned thereon, together with Mr. Pelletier.

At the conclusion of the examination, the Chairman thanked all the witnesses for the cooperation they had extended to the Committee.

The Chairman called a meeting of the Subcommittee on Agenda and Procedure for 12.30 o'clock p.m. this day, and the Committee agreed to adjourn to the call of the Chair.

At 12.05 o'clock p.m. the Committee adjourned to the call of the Chair.

AFTERNOON SITTING

TUESDAY, February 5, 1963.

(6)

The Committee resumed, in camera, at 1.30 o'clock p.m. The Chairman, Mr. Alan Macnaughton, presided.

Members present: Messrs. Benson, Crouse, Forbes, Hellyer, Lewis, MacDonald (*Rosedale*), Macnaughton, McGee, Muir (*Lisgar*), Noble, Olson, Rapp, Scott, Smith (*Simcoe North*), Winch.—(15).

In attendance: Dr. Ollivier, Law Clerk and Parliamentary Counsel.

The Chairman presented to the Committee a draft report prepared by the Subcommittee on Agenda and Procedure.

The Committee considered the said draft report, adopted it unanimously as amended, and ordered the Chairman to report it to the House as the Committee's Second Report.

At 1.45 o'clock p.m. the Committee adjourned to the call of the Chair.

R. L. Boivin,
Clerk of the Committee.

EVIDENCE

TUESDAY, February 5, 1963.

The CHAIRMAN: Gentlemen, we have a quorum this morning. The first order of business is for the chairman to give an opinion and ruling on the motion of Mr. David Lewis made at the last meeting. I was trying to wait until Mr. Lewis arrives but time is of the essence.

During the meeting of the standing committee on public accounts held on Friday, February 1, 1963, the following motion was presented by Mr. D. Lewis:

I move that the Auditor General be requested to inspect the three files referred to in paragraph 95 of his report and report to this committee anything which, in his judgment, should be brought to its attention with respect to the contents of the said files.

There are grounds for considering that such a motion is out of order.

The powers of the committee are set out in its initial order of reference, dated October 26, 1962, which reads in part as follows:

That the said committee be empowered to examine and inquire into all such matters and things as may be referred to it by the house; and to report from time to time its observations and opinions thereon, with power to send for persons, papers and records.

The pertinent order of reference of the committee dated January 23, 1963, reads as follows:

That the public accounts, volumes I, II and III, and the report of the Auditor General for the fiscal year ended March 31, 1962, be referred to the standing committee on public accounts.

Citation 304 (1) and (2) of Beauchesne's Fourth Edition p. 244, reads:

(1) a committee can only consider those matters which have been committed to it by the house. C.J., Vol. 65; 539, 871.

(2) a committee is bound by, and is not at liberty to depart from, the order of reference. (B.469). In the case of a select committee upon a bill, the bill committed to it is itself the order of reference to the committee, who must report it with or without amendment to the house. M. 468.

Citation 294 (1) of Beauchesne's Fourth Edition, p. 240 reads in part as follows:

(1) A select committee, having only a delegated authority, cannot, without the leave of the house, divide itself into sub-committees and apportion its functions among such sub-committees, or delegate to a sub-committee any of the authority delegated to it by the house (Parl. Deb. 1819, 39. cc 776-77). A committee may, however, avail itself of the services of its members individually or in the form of sub-committees for purposes connected with the business of the committee, such as drafting, which do not involve a delegation of authority.

While there is no apparent doubt that the committee is empowered to send for papers, and specifically the three files referred to, since their production would not require that an address be presented in the house (See May's 16th edition, page 625), the committee would undoubtedly be going beyond its terms of reference were it to delegate this power to a subcommittee or to persons who are not members of the committee.

This interpretation is borne out implicitly in the examples quoted in May's 16th edition, page 632, to wit:

Investment of select committees with special powers.—Where necessary any other powers that may be thought proper are conferred upon select committees.

Thus the select committee of the lords of the sweating system was empowered to employ a gentleman to visit the localities where the existence of the system was alleged, and to examine into the evidence proposed to be submitted to the committee; . . . the select committee on telephones was empowered to appoint persons from outside its own body for the purpose of obtaining special expert information and advice upon the subject matter of its inquiry. . .

Since these committees had to be invested with special powers by the house to do these things, the implication is, clearly, that they did not possess these powers normally.

It is recognized that the motion under study does not order the Auditor General to examine these files, but merely requests that he do so. However, if it were to become practice for a committee to request witnesses or bodies to do something which it cannot order them to do, then cases would undoubtedly arise where the committee's intervention could be construed as an attempt by the committee to coerce witnesses by using the prestige of the committee rather than its authority.

Furthermore, the case that is now under review by the committee involves precisely the actions which the motion would have taken. The committee is considering a case where the Auditor General has been denied access to certain files and the motion requests that the Auditor General inspect these same files. Since the committee has not yet concluded its hearings on the matter and therefore not decided whether this denial was justified or unjustified, the motion anticipates a decision of the committee, and whether a minister may have agreed to its substance or not is not relevant to the validity of the motion. This would be tantamount to taking direct action to rectify the situation, whereas the house has only authorized the committee to inquire into the matter and report.

Consequently I believe Mr. Lewis' motion is out of order because:

First, it is premature in that it prejudices the committee's report which will recommend or not recommend that all files whether assessment or collection files should be made available to the Auditor General; second, if the committee should report in the affirmative, this report will have to be concurred in by the house to become effective;

third, the former Minister of National Revenue is now the Minister of Finance, the actual Minister of National Revenue is the one who can consent in his official capacity to those files being made available;

fourth, the committee is not an administrative body which could give instructions of an administrative nature although it is empowered to make recommendations to the house;

fifth, the committee by virtue of its powers may ask for the production of papers for its own purposes. Whether it should or should not is a debatable matter and to be decided by the committee.

Mr. SMITH (*Simcoe North*): Somebody did a lot of work.

The CHAIRMAN: So, consequently, I rule Mr. Lewis' motion out of order, and I suggest we proceed.

Mr. SMITH (*Simcoe North*): Mr. Chairman, I do not ask that this be given verbatim, necessarily, at this time, but do you think it would be possible for this committee to be supplied with a glossary of the terms which have been used here in respect of the files? We have collection files, personal files and

assessment files. Do you think the Department of National Revenue might supply this committee with a glossary of terms which would indicate the contents of the various types of files and where they are kept. If this were supplied, it could become part of our proceedings.

The CHAIRMAN: I think Mr. McEntyre might be able to clear this up very shortly. May we proceed.

Agreed.

The CHAIRMAN: The next thing which I would like to bring to your attention is that Mr. Driedger, the deputy minister of justice, was here at the last meeting but he cannot be here today for the obvious reason that he is attending the funeral of the late Mr. Justice Kerwin this morning. However, to keep the record clear, I think I should say that Mr. Driedger did appear before this committee on May 13, 1959, and his evidence can be found at pages 228 and 229 of the proceedings of the public accounts committee in 1959 wherein he gave some opinion on the question of the words "international relief purposes". He also did appear before the standing committee on railways, canals and telegraph lines on June 3, 1955. His testimony can be found in the minutes of proceedings and evidence at pages 297 to 302. I do not wish to prejudice anything he may say, but the record shows he has appeared before this committee and other parliamentary committees.

Now, gentlemen, we come to the business of this meeting. Mr. McEntyre, I believe you were to make certain inquiries of the Minister of National Revenue. Were you able to make contact with him? Is there anything you would like to tell the committee?

Mr. J. GEAR MCENTYRE (*Deputy Minister, Department of National Revenue, Taxation Division*): Yes, Mr. Chairman. I was able to inform my minister, the honourable Hugh John Flemming yesterday of what had taken place at the meeting of this committee on Friday. I inquired of him with regard to these three files. He instructed me that he had no objection to giving the Auditor General access to the three files. Therefore I have informed Mr. Henderson of that this morning, and I have told him that the files are available in my office.

Mr. HALES: Would you specify the files of which you are speaking?

Mr. MCENTYRE: These are the files referred to in the Auditor General's report, paragraph 95.

Mr. HALES: Are they collection files or personal files?

Mr. MCENTYRE: They are collection files, files that are kept at the head office collection section.

The CHAIRMAN: Mr. McEntyre, may I interrupt? Mr. Henderson, you have heard Mr. McEntyre's statement; does that satisfy your desire, so to speak?

Mr. A. M. HENDERSON (*Auditor General*): Yes, Mr. Chairman; that provides me with the access I normally have. I would like to record my appreciation of Mr. McEntyre's assistance on this and that of the Minister of National Revenue. I have arranged with Mr. George Long, my supervisor in charge of revenue audits, to call on Mr. McEntyre in his office this afternoon for the purpose of examining the files.

The CHAIRMAN: So, so far as you are concerned, the issue is settled.

Mr. HENDERSON: Yes.

The CHAIRMAN: Are there any further questions?

Mr. LEWIS: What about the general problem in respect of the effect of section 66 of the Financial Administration Act and the right of the Auditor General's office to inspect all files and documents.

The CHAIRMAN: It does not seem to be a question any more. This seems to have been settled, but you may raise it if you wish.

Mr. LEWIS: Mr. Nowlan did not suggest that his agreement to see these files was a settlement of that issue, because he was constantly making a distinction between something he called collection files and something he called personal files. That same description was made by one of the members of this committee a few minutes ago.

The CHAIRMAN: I hope I am right, but as I understand it, there were only three files refused to the Auditor General.

Mr. HENDERSON: That is correct.

The CHAIRMAN: And since that time no files have been refused.

Mr. HENDERSON: That is correct.

The CHAIRMAN: So the three files have now been offered to the Auditor General, and I do not see that there is anything left to discuss.

Mr. LEWIS: You are much more accommodating than I am. In the course of discussing the question of these three files, it was my understanding that the then minister of national revenue and the deputy minister of national revenue raised the point that there was an alleged conflict between section 66 of the Financial Administration Act and the Income Tax Act and that in their view, the Auditor General's office did not have automatic access necessarily to all the files. Then Mr. Nowlan made a differentiation between collection files and personal files.

In my opinion section 66 is clear, and since it was passed subsequently to the Income Tax Act, the Auditor General's office ought to have access as of right by statute to all files, documents and everything else in the national revenue department. Personally I do not think this matter can be settled at all until the deputy minister of the Department of National Revenue can say to this committee his view is that the Auditor General's office will have access, because the right is given by statute to see all the files and all the documents in his department.

The CHAIRMAN: Well, let us understand each other, Mr. Lewis. Before you came in—I think it was before you came in—I said that we had tried to have Mr. Driedger here this morning, but he was otherwise occupied.

Mr. LEWIS: I was here.

The CHAIRMAN: But we shall have at ten o'clock Dr. Maurice Ollivier, who will give you his opinion. He is lecturing now at the University of Ottawa and cannot be here before ten.

Mr. LEWIS: Then the matter is not under the table.

The CHAIRMAN: No.

Mr. CARON: That is an issue to be put in the report of the committee for the house.

The CHAIRMAN: Let us get on with our business. Now, Dr. Ollivier, I see you are here. You are now the star witness. Would you care to put your question to Dr. Ollivier, who is legal counsel to the House of Commons?

Mr. LEWIS: Dr. Ollivier, I do not think I should take longer than to state the question to you because I remember you were sitting with us for the last two meetings. The Auditor General has raised in paragraph 95 of his report the question of access to certain files in the national revenue department. That question has now been settled and they have been made available to him. But in the course of the matter the question of the effect of section 66 of the Financial Administration Act has arisen in relation to the confidentiality sections of the Income Tax Act.

The question, briefly, is whether—and I think this is one which all members of the committee would like you to answer—subsection 1 of section 66,

quoted at the bottom of page 42 of the Auditor General's report, overrides any sections in the Income Tax Act relating to confidentiality. I might add that as I recall the wording of this section of the Income Tax Act, it says that they must be confidential to everyone except those entitled to see them.

Dr. P. M. OLLIVIER (*Law Clerk, House of Commons*): I do not see any difficulty there, especially when you consider the time when these acts were passed by the house. The Income Tax Act was passed in 1948, while the provisions respecting the Auditor General in the Financial Administration Act were passed in 1951, at the second session of 1951. Therefore they cannot be repealed by implication; on the contrary, it is the Financial Administration Act which came second.

Therefore, if there was any discrepancy between the two acts the Financial Administration Act would supersede the Income Tax Act. I think that would be my answer. Apart from that I do not believe there is any contradiction between the two acts because the Income Tax Act refers to persons who are entitled to these documents.

Mr. LEWIS: And those "persons" are entitled by section 66 of the Financial Administration Act—that is, the Auditor General's officers.

Mr. OLLIVIER: The Income Tax Act says the documents may be produced only to the people entitled to those documents. There is nothing in the Financial Administration Act to the contrary which says the Auditor General is not entitled to these documents.

Mr. LEWIS: The Auditor General's officers are by statute entitled to see them by virtue of section 66.

Mr. OLLIVIER: I said that if there is one Act which supercedes the other it is the Financial Administration Act, but even if it were otherwise there is no contradiction between the two acts.

Mr. OLSON: On a point of order, Mr. Chairman, I think if we are going to try to establish which act takes precedence over the other act we are exceeding our terms of reference as applicable to this committee. For this committee to make a report to the House of Commons that we are of the opinion that one act takes precedence over another act, would exceed, in my firm belief the terms of reference. I think we are charged with the responsibility of finding out why these three files were refused access to by the Auditor General, and we now have assurances that they now will be made available to the Auditor General. If the House of Commons wishes us to inquire into and make recommendations as to which act takes precedence over the other, then that is something we would have to have in addition to the terms of reference we now have.

The CHAIRMAN: Are there any other questions?

Mr. BENSON: Along the same lines, Mr. Chairman, I would like to ask Mr. McEntyre if, from this point forward, it is his interpretation that all files, assessments or otherwise, are available to the Auditor General and his department?

Mr. McENTYRE: Mr. Chairman, I am not satisfied that the doubt has been completely removed. As I say, the Auditor General, under section 67 of the Financial Administration Act, is entitled to examine the accounts relating to the consolidated revenue fund and to ascertain whether in his opinion all public money has been fully accounted for and that the rules and procedures applied are sufficient to secure an effective check on the assessment. I am not satisfied that he is entitled to look at the actual income tax returns and to check the mathematical calculations and the exercise of judgment that has been used by the assessors in raising the assessment; to my mind that could possibly mean

that the Auditor General is only entitled to look at the rules and procedures which are adopted by the taxation division in doing this work. Of course, there is the secrecy provision in the Income Tax Act and the long history of ministers of national revenue who have declared that income tax returns, as a matter of public policy, should be kept confidential. That is the assurance that has been given to taxpayers ever since the Income Tax Act was adopted or the income tax system was adopted in Canada, namely that they were free to give information to the tax officials because the tax officials would always keep that information confidential. It seems to me there is a conflict there and it should be resolved. I can visualize that the Auditor General, if he were entitled to look at the tax returns, might find something he felt duty bound to report. If he felt obliged to report in his annual report to parliament on some particular assessment it would be very difficult for him to explain his comment without divulging some of the personal affairs of the taxpayers involved. That seems to me to be contrary to the whole principle of confidentiality of information provided in tax returns and to the tax officials by taxpayers in this country. It gives me some concern that either decision should be made, that tax returns are available to the Auditor General and that there is a risk that he might feel obliged to divulge certain information in his report to parliament, or we may be able to continue to assure taxpayers that the information they provide us is confidential.

I would like to see a clarification in the Income Tax Act, and in that connection when you compare the secrecy provisions in the Income Tax Act with those in the Estate Tax Act, which is very long and complete, it seems to me there is something that could be done in respect of the Income Tax Act to clarify the situation. By the same token, if there is any doubt as to the meaning of section 67 of the Financial Administration Act it could possibly be clarified.

Mr. CARON: Are the officials of the Auditor General's department under the same oath of secrecy as those officials in the Department of National Revenue?

Mr. McENTYRE: The Auditor General has an obligation to report to a public body in a public way which is not so in respect of the officials of the taxation division. It is in connection with his obligation to report that I would be concerned that he might, in making his comment in a proper way, have to divulge confidential information.

Mr. CARON: Has this happened in the past, that the Auditor General has divulged any of the secrets in respect of some files?

Mr. McENTYRE: No, I do not believe he has.

Mr. CARON: So the dangers are not worse today than they were in the past?

Mr. McENTYRE: If we can go back into history in respect of this situation, during the 1930's there was considerable correspondence, advice and information between the then Auditor General and the then commissioner of income tax.

In the Auditor General's report for the fiscal year, 1945-1946 there is a comment by the Auditor General of that time. Perhaps I could read a short quotation from it.

The quotation starts:

The Auditor General in 1938 drew attention to an opinion of the deputy minister of justice given to the Minister of Finance. In this opinion is to be found:

...the Auditor General has the same powers of audit of income taxes as he has with regard to the revenue of any other department, except in so far as the documents mentioned in section 81 of the Income War

Tax Act are concerned. He is not permitted to see these documents for two reasons: first, because he is precluded by the provisions of the said section 81, and second because he has no power to review the findings of the minister.

The pertinent subsection of section 81 of the Income War Tax Act reads: 81. (1) No person employed in the service of His Majesty shall communicate or allow to be communicated to any person not legally entitled thereto, any information obtained under the provisions of this act, or allow any such person to inspect or have access to any written statement furnished under the provisions of this act.

Without access to taxpayers' files, it is not possible for this office to satisfy itself regarding all matters related to the collection of the revenues, including:

He goes on to outline the second item. So at that point the Auditor General conceded as a result of the opinion of the deputy minister of justice that he was not entitled to look at the tax returns of the taxpayers.

This report came out I suppose toward the end of 1946.

Mr. LEWIS: I do not want to interrupt, but could Mr. McEntyre tell us whether at that time there was anything equivalent to section 66 of the Financial Administration Act anywhere in our statutes?

Mr. McENTYRE: The provisions governing the audit of the Auditor General at that time would be in the Consolidated Revenue and Audit Act which, of course, is superseded by these provisions in the Financial Administration Act, but changed to some extent.

Mr. LEWIS: Was there anything in that act equivalent to section 66?

Mr. McENTYRE: I am sorry, I have not got it with me, so I have not compared it; but I am quite sure that the provisions of the Financial Administration Act are quite specific.

Mr. HELLYER: I think Mr. McEntyre has, so to speak pinpointed the basic concept of the principle. There seem to be two views which have resulted: on the one hand, there is the view that a taxpayer's information should under all circumstances remain confidential; and on the other hand there is the principle of parliament being entitled to know that the laws which is passes are applied with justice and equity. Mr. McEntyre is an outstanding deputy minister and I am sure that most of us need have no worries. But let us take a hypothetical possibility that the department was administered by a weak deputy minister, and under the circumstances there was an opportunity, at least, for inequities in the administration of parliament's statutes.

I would like Mr. McEntyre to give the committee his opinion—perhaps he would not chose to do so—as to which of these two principles is the more important; that is to say, the secrecy in respect of information supplied by a taxpayer, or a guarantee to the parliament of Canada that these laws are in fact being administered in the way they were intended to be administered when the statutes were passed.

Mr. McENTYRE: Well, Mr. Chairman, there is some discussion of this and there might be a lot to be said on both sides. That I must admit. I certainly appreciate what the hon. member has said, that parliament has the right to know that these laws are being properly administered, but I do feel that the administration of the Income Tax Act requires the intrusion into the personal affairs of the taxpayer, which I suppose in some way should be kept confidential.

The question is how to balance these two principles one against the other. I am not too sure. We have been through this. There is the question of whether decisions of the tax appeal board should be given without disclosing the name

of the taxpayer involved. We have come along now to the point where the tax appeal board does give the name of the taxpayers appearing before them. Whether this has made some taxpayers more reluctant to contest their assessments and go to the board, I do not know. Perhaps our experience has shown that it has not had that effect. It may be that the people of Canada are satisfied to have the Auditor General look at their returns, and to run the risk, perhaps, of there being some comment made publicly.

Mr. HELLYER: Are you not sure that there are some exceptions to the principle of secrecy, for instance, in criminal prosecutions, where the court determines whether or not confidential income tax information shall be made public?

Mr. McENTYRE: There was a case in British Columbia some years ago, when the tax department resisted providing the court with information from the taxpayer's returns. Eventually the Supreme Court of Canada came to the conclusion that the taxation department was obliged to produce this information in a criminal matter.

Then there have been a number of civil cases between individuals, who happened to be taxpayers, and it may be that one of the parties would like to be able to see the tax return of the other party. We have always resisted providing these returns, and so far the courts have held in our favour, to the effect that tax returns were not available in civil suits between parties, that is, between individual parties.

Mr. HELLYER: But suppose the public were involved?

Mr. McENTYRE: No, in these cases the public was not involved.

Mr. HELLYER: Would there not be some distinction between civil suits and those in which the public is involved, where it is merely a matter of two parties seeking information about each other, that is all, and a criminal suit? In this case before us it is the public, it is parliament which is involved; it is the public involved under the government. Surely that is a distinction.

Mr. McENTYRE: That is more a matter of political science in which I am afraid I am not an expert.

Mr. MACDONALD (*Rosedale*): To refer to the principle of assuring the taxpayer that his information will be held confidential under all circumstances, is that not putting it too high? Is the statutory authority limited to making information available to those legally entitled thereto, and that a person under a legal impediment should be entitled to full disclosure under the section.

Mr. McENTYRE: Yes, those words "legally entitled" are not too clear, I think, in the act.

Mr. MACDONALD (*Rosedale*): Having regard to the Auditor General's authority, you question whether he could examine individual cases for the purpose of determining the evidence and the procedure. Surely it is essential that he should examine particular cases to establish the whole system.

Mr. McGEE: And it has in fact been so.

Mr. LEWIS: Surely so.

Mr. McENTYRE: If he has the right to look at the rules and procedures which are contained in the instructions to assessors, that would seem to me to be sufficient for him to get a general assurance that the act is being properly enforced and administered.

Mr. MACDONALD (*Rosedale*): Should he not be entitled to look at individual cases?

Mr. McENTYRE: Certainly, he should be able to have a complete verification, and he would have to look at the reports.

Mr. MACDONALD (*Rosedale*): Is there anything in the statutory provisions which would stop him from doing a complete verification with respect to the accounting system?

Mr. McENTYRE: Yes. One thing I think might be interpreted to the effect that he is foreclosed from looking at returns, and that would be section 67 of the Financial Administration Act where it says that the Auditor General should ascertain whether all public moneys have been fully accounted for, and that the rules and procedures applied are sufficient to ensure the effective checking of the assessment. That gives him authority to look at the rules of procedure, but not necessarily at the returns.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would you say that that section could only be implemented if the Auditor General is able to see the effect of the application of these rules and regulations and procedures, because in what other way could he test their efficacy?

Mr. McGEE: But that has been done by spot checks through various districts offices, and I think arrangements have been made, although I could be wrong. I believe in some cases some error or apparent error has taken place, and these were corrected to the satisfaction of everyone concerned. That is my understanding. Is it not so?

Mr. McENTYRE: I was going to give you some further history. After this report of the Auditor General in 1945-46, Frank Brown replaced Mr. Elliot as deputy minister, and it was at that time that he issued this letter in which he instructed the district offices to disclose all the files to the Auditor General. And in that letter, which I think is already a part of the record here, he said "in the past we have taken the view that our oath of secrecy stood in the way of our making these files available to the Auditor General's staff, but the writer does not subscribe to this view".

As a matter of fact I put this material together because I believed that I was asked to find out whether the legal division of the taxation department had ever looked into this. I found that at that time there was no legal opinion in the office, and from what Mr. Brown said in respect of it, it seems that he took it upon himself to change the practice which had been in existence since 1917 and even prior to then. So, if there was a change in 1947, apparently it was not made on a legal basis, but simply an administration decision by the deputy minister at that time.

Mr. MUIR (*Lisgar*): Is it Mr. McEntyre's opinion that there is something in the assessment files that the Auditor General would need for the purpose of his duty, which is not to be found in the collection files?

Mr. McENTYRE: Yes. Of course, the assessment files contain the tax returns which are filed by the taxpayer and they would contain a memo of any additional information that the assessor had obtained from the taxpayer during the course of his audit. As a result of the information on the assessment file an assessment would be prepared which would, in fact, be the tax bill. Once it is prepared it is sent to the accounts section where the amount shown on the tax bill is balanced off against any payments made on account. If there is a resulting balance to pay the account section would then send a further notice to the taxpayer and take whatever action is necessary. In the course of doing that they may write letters to the taxpayer or make inquiries, and they would then open up a collection file dealing only with the collection aspects of the case, and that would be the collection file.

Of course, the accounts section can draw the assessment file and look at the tax returns and see if there is any information on that—that is, as to the

name of the taxpayer's employer, any assets he may have out of which collection might be enforced, and so on. But the collection file would have correspondence dealing primarily with collection matters, and that is where the distinction is between collection files and assessment files.

Mr. BENSON: Mr. Chairman, I raised this question to start with and what I wanted from Mr. McEntyre was a statement as to whether or not he now intends to change the practice of making the assessment files available to the Auditor General, which practice has been established over the past 15 or 16 years. Mr. McEntyre, do you intend to do this and to carry on with the practice that has been established.

Mr. CROUSE: Mr. Chairman, I am saying this is somewhat out of order as it is not within the terms of reference of this committee at this time.

Mr. SMITH (*Simcoe North*): Mr. Chairman, the witness said that he would like clarification as to the legal basis of whether the custom established is right or whether the act should be clarified. May I ask a question in connection with section 67?

The CHAIRMAN: Did you get an answer?

Mr. BENSON: No.

Mr. McENTYRE: As I have said, I am somewhat doubtful as to the legal position of it and I would like to have it clarified. Now, in the ordinary course the procedure to do that would be for me to make recommendations to my minister; if it is a question of legislation, I imagine he would refer it to his colleagues, and if it was decided that legislation was required eventually the Department of Justice would be asked to draft a bill. I have not discussed this to any great extent with my present minister so I do not know what his feelings are. In the meantime, considering the practice which has been going on since 1947, I certainly do not intend to issue different instructions tomorrow or the next day.

Mr. LEWIS: Hear, hear.

The CHAIRMAN: Would you proceed now, Mr. Cowan.

Mr. COWAN: Mr. Chairman, before I ask the deputy minister a question or two could I make a comment here with regard to Mr. Lewis' motion?

The CHAIRMAN: Well, it is a little late but I do not pretend to be the supreme court.

Mr. COWAN: In section 3 of your report you stated the former minister of national revenue is now the Minister of Finance. The actual Minister of National Revenue is the one who can consent, in his official capacity, to those files being made available. The whole purpose of this inquiry is to find out whether the minister has the right to interfere in the production of documents when called upon by the Auditor General. We do not have to ask the Minister of National Revenue for his consent to make these files available to the Auditor General. But, with regard to section 66, Mr. McEntyre, you state now that you would like a clarification. How would you clarify the phrase:

Notwithstanding any act, the Auditor General is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every department.

Mr. McENTYRE: I do not think that is the portion that requires clarification.

Mr. COWAN: It certainly does not require clarification.

The other day when you first gave evidence you stated that it was arguable that personal files or files in which the minister had an interest did not have to be released to the Auditor General, and I asked you at the other sitting at what point do the files become personal. Is the minister interested in them when the taxpayer writes to the minister and marks it personal or when the minister writes back to the taxpayer and marks it personal, or are only

files personal where the minister is acquainted with the interested taxpayer? When do they become personal and arguable and do not have to be disclosed to the Auditor General?

I think every taxpayer in Canada is entitled to your opinion on that so that he can mark his files accordingly.

Mr. McENTYRE: In connection with these files, I knew the minister had an interest in them because there was correspondence on the files between the minister and the taxpayer and when the Auditor General asked to see these files I thought it was only part of my duty to inform my minister that the Auditor General had inquired about these files.

Mr. COWAN: You said it was arguable that they could be withheld from the Auditor General because the minister had a personal interest in them. In connection with any file marked personal and forwarded to the minister direct would that make it inaccessible to the Auditor General?

Mr. McENTYRE: It was not a question that it was arguable that the Auditor General could not look at those files because there was correspondence marked personal on the files; it is arguable whether the Auditor General can look at any particular file.

Mr. COWAN: The law says:

Notwithstanding any act, the Auditor General is entitled to free access... to all files, documents and other records relating to the accounts of every department.

Mr. McENTYRE: Read the whole thing.

Mr. COWAN: I am sure there is no further clarification necessary to that law now.

Mr. SMITH (*Simcoe North*): The last line of section 66 (1) of the Financial Administration Act, Mr. McEntyre, says:

as he may deem necessary for the proper performance of his duties.

When does a tax return become an account, after the assessment is made or immediately on the filing?

Mr. McENTYRE: Mr. Chairman, as I see it, the accounts and returns are two different things. In my mind, the accounts are the ledger cards which we have set up which show how much a taxpayer has paid toward his tax as well as how much tax has been assessed against the taxpayer. These accounts show either a credit or a debit. Either we have money belonging to the taxpayer for which we have not a bill against him or else we have a bill against the taxpayer which he has not paid. That, to my mind, are the accounts. Now, the tax returns contain information which the taxpayers provide to us and which show a calculation of the tax that he owes or that should be assessed against him, and it is from the returns that we prepare the tax bill. Once a tax bill has been prepared, then the amount of the tax is entered on the account which is another document.

Mr. SMITH (*Simcoe North*): What precedes the assessment could be argued to be not an account or part of an account?

Mr. McENTYRE: That is the way I feel about it, yes, sir.

Mr. SMITH (*Simcoe North*): It might be argued that the Auditor General is not entitled to see what precedes an account, is that right?

Mr. HELLYER: Yes, but only a Philadelphia lawyer would so argue.

Mr. SMITH (*Simcoe North*): Oh, no. You have made some tax returns, Mr. Hellyer, and I think you would feel this way.

Mr. HELLYER: I have paid my share.

Mr. OLSON: Mr. Chairman, I think this whole area of conflict between the two acts reduces itself to the two words "legally entitled". I should

like to ask Mr. McEntyre whether he thinks that the qualifications of the Auditor General and his staff are such that they do or do not make him and his staff people who are legally entitled to examine the files?

Mr. McENTYRE: I have examined these words "legally entitled", and the courts have examined them. They are not very definite. Therefore, in order to consider whether the Auditor General is a person legally entitled, and in looking at the Financial Administration Act to see what authority the Auditor General has, I come to this section 67, sub paragraph (b) where it refers to rules and procedures.

Mr. LEWIS: What have you to say about the words that precede that portion, Mr. McEntyre?

Mr. OLLIVIER: I do not think you can look at section 67 without looking at section 66, and any opinions given before the Financial Administration Act came into force are superseded by that section 66. I think the purpose of section 66 was to supersede all those uncertainties. I cannot see any difficulty in defining what is meant by "legally entitled". I think section 66 says exactly who is legally entitled, and I think that was the purpose of that section.

The CHAIRMAN: Gentleman, I do not want to rush the proceedings of this committee at all, but in view of the events on parliament hill at the moment, and also in view of the fact that the House of Commons did refer these two matters to us, I would urge you, if it is possible, to move onto the second matter before this committee, because we may not have an opportunity later and we do have the opportunity now. Does the committee think we have sufficient information before us in respect of the first point? I do not think it is up to this committee to decide upon the differences between the two acts. We can only report our views to the House of Commons.

Mr. LEWIS: Do you wish a motion in that regard, Mr. Chairman?

The CHAIRMAN: We do not need a motion in that regard but we certainly do need general consent.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Thank you Mr. McEntyre.

Some hon. MEMBERS: Hear, hear.

The CHAIRMAN: Section 21 at page 6 of the Auditor General's report has to do with the recruitment of audit office staff.

We have here this morning Mr. Henderson, whose report we are dealing with, and the civil service commission members including Miss Ruth Addison, one of the commissioners, and Mr. Pelletier, another commissioner.

Mr. Henderson, have you something to say to us in this regard?

Mr. HENDERSON: Mr. Chairman, I have with me today Mr. Ian Stevenson, assistant auditor general, with whom you are acquainted and Mr. Cooke, one of my senior officers as well as my supervisors whom I do not think I need to introduce individually.

I should like to ask Miss Addison and Mr. Pelletier and their officials who are present today to accept my assurance that there is nothing personal in what I shall have to say. Just as in the case of the taxation division, my officers and I place the highest importance on the state of our relations with all departments and agencies which by law we are required to audit, and this includes the civil service commission.

But we have a highly important job to discharge, and unless we have the tools we need, that job is going to suffer. Like any professional auditor, if this threatens it is his duty to report it to his employers.

As members are aware, this matter was considered by the public accounts committee during its meetings in 1960 and again in 1961, resulting in the recommendations made by the committee to the House of Commons in both years. These are quoted in paragraph 22 of my current report.

As a number of the members present are naturally not familiar with all of the circumstances leading up to these recommendations in 1960 and 1961, I feel I should briefly outline the facts before bringing them up to date to explain why I have felt it necessary to bring this matter forward again, both in my follow-up report sent to the members on January 14 last and in my 1962 report dated November 19, 1962, tabled by the Minister of Finance in the House of Commons on January 21, 1963.

In a memorandum I prepared for the committee 2½ years ago on June 8, 1960 and which was discussed in the committee on the following day, I explained to the members how, since assuming office on March 1, 1960, I had been examining the scope of the various audit programs employed by the audit office in its examinations of the accounts of the various government departments and crown corporations and assessing the staff position of the office. Its authorized establishment for the fiscal year 1959-60 was 142 employees. However, I pointed out, its average working strength during the year had only been 136, which figure at March 31, 1960 stood reduced to 132.

In dealing with the need for broadening the scope of several of the audit programs in the light of present-day conditions, I explained that the Office has the responsibility of discharging its work in a manner similar to the way in which private professional auditors examine the affairs of large corporations. As we know, they are appointed by the shareholders and report in the final analysis to the shareholders in the same way that I am appointed by parliament, and in reporting as I do by law to the House of Commons, I too am reporting in fact to Canada's shareholders—the taxpayers of Canada. The only difference between us is that I unfortunately cannot bill my clients!

Mr. LEWIS: In two months you will have a raise.

Mr. HENDERSON: I then went on to show how the responsibilities of the audit office have increased over the past ten years, and I placed on the record the following table (updated to 1962):

This gives the figures for 1950, 1955, 1960, 1961 and 1962. It is a simple table showing total government expenditures in 1950 of \$2½ billions with 29 government departments and my office with 166 people. In 1962 the total of government expenditures was considerably more, in the neighbourhood of \$6½ billions, with 35 government departments, and only 149 members on my staff.

	Total government expenditure (\$ millions)	Number of		Size of audit office staff
March 31		government departments	crown corporations	
1950	\$2,449	29	23	166
1955	4,275	32	29	134
1960	5,703	34	29	132
1961	5,958	35	29	137
1962	6,521	35	29	149

As I have stated in my 1962 report, the committee in its report to the House of Commons on July 20, 1960 made the recommendation that consideration be given to authorizing me to recruit my own staff. On August 10, 1960, Mr. Chairman, you, on behalf of this committee, addressed yourself to the Minister of Finance in the house on this point and asked if the government would give consideration to the matter. Mr. Fleming the then minister of finance, replied (Debates, p. 7933):

As to the work of the committee this year I say that the report tendered to the house by the committee will be very carefully studied. Some of the matters that the hon. member has mentioned are stressed in that report, and it will be my obligation to give very serious study to those questions.

While there was no action on this particular recommendation, action was taken to recognize my need of additional staff by the minister when treasury board approved an increase in the authorized establishment for the office from 141 to 179; that is to say, they approved the employment of 38 new employees I had estimated I needed. It was agreed that instead of employing the 38 extra people in the one year 1961-62, this number be added over the two year period on a basis whereby I would have my full complement of 179 on the job by April 1, 1962.

I much appreciated the understanding and help extended to me by the minister and his officials in approving this increase at a time when government expenditures were mounting so rapidly. I disliked very much having to ask for more people. I had, however, given the matter considerable thought and the most careful planning and stated at that time that the figure of 179 was the minimum strength necessary, in my opinion, for the Auditor General to carry out a basic external audit program within the framework of existing government organization—in fact I recorded this in my 1961 report.

No auditor likes to be as precise as this in estimating his staff needs so far ahead, but I felt it was important on the government scene that I be as specific as possible because of the importance of estimates and all of the attendant government planning required under the system.

During the fall and winter of 1960-61 the Civil Service Commission made a most genuine effort to help me. I was authorized to employ the additional 18 people effective April 1, 1961 and the staff recruitment planning commenced with a meeting in my office in January 1961 (with senior Civil Service Commission officers) so that I could be sure that I would have these men on the job by April 1, which is the beginning of our busiest season with the crown corporations. You will appreciate this because the financial years of most of the corporations end on March 31 and their audits must be finished by June since their accounts have to be presented to the responsible ministers by June 30th for tabling in the House of Commons under the Financial Administration Act.

The public accounts committee started its meetings in March 1961 and, as you will note from the committee's recommendation tabled on July 1, 1961, quoted in paragraph 22 of my current report, very little action in the matter of recruiting staff had taken place. You will see from this that in spite of the best efforts of the commission, only one of the eight senior men I required had reported for duty by June 12, 1961 so that my actual working staff at that time was only 139—20 short of the approved establishment for 1961-62.

In fact, none of the men I had expected for our 1961 busy season had been on the job. The seniors finally arrived between June and September of 1961—in other words, an average of four months after the April 1 target date. And my I just interject at this point that of these 8 senior men, 7 are still with us and each is making a real contribution to our work.

As you will have noted from the committee's 1961 recommendation, Mr. S. H. S. Hughes, chairman of the civil service commission at that time, had appeared as a witness before the committee in that year. In his testimony he had said that he was unable to state what delegation of authority might be made to a deputy head to select his own employees largely because the new Civil Service Act (which was to come into effect on April 1, 1962) was still under discussion by a special committee.

My officers and I have a very real appreciation of the procedural problems facing the civil service commission and I myself had a number of good talks personally with Mr. Hughes. Because I felt there was a possibility that we could still work out some mutually satisfactory staff arrangement, Members may recollect that I suggested to the committee that I should persevere in his effort.

Mr. Hughes told me he appreciated this and accordingly I hoped that we could somehow remedy this state of affairs during the balance of the 1961-62 fiscal year.

Accordingly at the end of the calendar year my officers and I prepared a most exhaustive staff review memorandum outlining all of the staff problems of the audit office as of December 31, 1961. Mr. Hughes told me that this would be extremely helpful to him and to his officers because it would brief them well in advance of our spring needs when, as I have explained, our approved establishment was due to go up the additional 20 people to a total of 179 on April 1, 1962.

This staff review memorandum was a document of some 14 pages dealing with all aspects of my staff—ranging from recruitment delays experienced, salary scales paid in relation to similar staffs in government departments and Crown corporations for what might be regarded as comparable work, and so on. It was intended to form a basis of a new look at my problems not only by the Civil Service Commission but by the Treasury Board and the officials of the Department of Finance.

I sent this memorandum by arrangement to Mr. Hughes on January 17, 1962, stating that I would be glad to furnish any additional information that he or his officers might feel relevant and expressed the hope that an early meeting would be possible to discuss ways and means of meeting our objectives. Naturally my officers and I were looking forward to an early discussion of its contents with the officers of the commission.

There was, however, no reply sent to me at all concerning this memorandum. When writing to the Chairman about another matter on March 7, I told Mr. Hughes that I had been hoping that I might have had a reply because of the seriousness of our staff position.

Finally, as a result of an acute staff situation which developed in my Montreal office, I wrote to him on May 10th to express my disappointment that I had not heard from him and stating that I was very much concerned over the state of affairs—the staff at this time being 151, or 28 short of the approved establishment.

Mr. Hughes commenced his reply to me on May 15 by saying that he was of the opinion that there had been an unfortunate informality in the way in which my letters had been dealt with in the commission and that he would see that a more meticulous standard was adopted without delay. But his reply contained no constructive suggestions toward the solution of our basic problem.

Mr. Hughes had previously told me on more than one occasion that in general he agreed with me that the relatively small size of our staff, the professional connections we must maintain at all times with the provincial institutes of chartered accountants, and so on, coupled with the independence of the office did indeed present a formidable case for the exclusion. We discussed how my Office would operate if we did our own recruiting and I told him I would welcome discussing this in detail with him and his officers any time because I regarded it as most important that we should have the very best of relations at all levels on the government scene. To be able to recruit our own staff was not to mean I would take staff from other departments or offer unfair salary inducements.

On several occasions I had told Mr. Hughes that I had actually never had the pleasure of discussing any of these matters with either Miss Addison or Mr. Pelletier and that if he felt a joint meeting could be held I would be most happy to go over to his office because I am a strong believer in sitting around the table and talking things over. It has always been my experience that this is far better than endless correspondence. He said he appreciated this and would let me know.

I dropped Mr. Hughes a line on June 15 asking him if it had been possible for him to discuss the points at issue with his associates, and when I might expect to hear from him further. He replied on June 18 that he had the matter under consideration with his colleagues, that it probably would be on the agenda of the next meeting of the commission during the forthcoming week, and as soon as he could he would write to me.

Mr. Hughes then wrote to me in what appeared to be final terms on June 20. In my follow-up report to the committee on January 14th last, I quoted a portion of this letter in which the chairman stated that he and his colleagues were of the opinion that it was not practicable nor in the public interest to ask the governor in council to grant me exemption under section 74 of the Civil Service Act. I shall be glad to read this portion to you again although it appears on the centre of page 23 of the follow-up memorandum you have.

On July 6, 1962 that is to say a couple of weeks later I placed the facts of the situation before the Minister of Finance stating that as a consequence of the continuing staff shortage, much of the broadened scope of work we should be covering had had to remain untouched, and that I believed this to be such a serious situation I would be obliged to bring it to the attention of the House of Commons in my next report. Members of the committee may be interested if I quote from this letter:

As the record will testify, my senior officers and I have done everything possible to promote a satisfactory and efficient working arrangement with the Civil Service Commission. Unfortunately this has not developed. The upshot is that the chairman of the commission has suggested that I seek an amendment to section 65 (4) of the Financial Administration Act in order to secure the exclusion of my staff from the operation of the Civil Service Act. The audit office would then operate in this regard along the lines recommended by the standing committee on public accounts.

"I am therefore most anxious to know if you would be prepared to support such an amendment. Pending its submission and approval by parliament, it would then seem reasonable that the commission be asked to authorize me under the Civil Service Act to select the staff I need to discharge my responsibilities within the establishment approved by the treasury board. Freedom of action along these lines would also result in effecting considerable savings in staff time now consumed, at the expense of our professional auditing responsibilities, in applying all of the many procedural requirements of the Civil Service Commission.

On October 3rd I had a meeting with the Minister of Finance. I explained that I disliked very much having to refer to this matter in my forthcoming report to the House of Commons, but that the problem had reached such serious proportions I considered I would be failing in my duty if I did not point out the effect that the staff shortage was having on my work. I stated that for the past two years my work had been seriously impeded due to the failure of the Civil Service Commission to fill my staff needs, primarily because of:

- (1) Its inability to recruit sufficient suitable juniors of the type which should be entering a professional accounting office.

- (2) Its long procedural delays between interviews and appointment on the job, resulting in potentially good men interviewed being unable to wait so long.

- (3) Lack of flexibility in meeting market conditions.

- (4) The need for a realistic salary scale—a matter which I would wish to discuss directly with the Treasury Board as a special matter.

I might say at this point that we have prepared a brief summary of the precise recruitment difficulties and delays to which we have been subjected and to which I will refer later if members wish.

I then went into detail to explain how the scope of the work had had to be further reduced. While the establishment increase I had referred to, authorized as I have said by the treasury board in 1960, was to permit a much needed broadening of the scope of the work, not only had this not been achieved but now I was faced with reducing it further in 1962, and reducing it, in my opinion, below the danger line. I gave him specific cases across the different departments in support of this statement. I would be prepared to give these to the members of the committee, Mr. Chairman, but perhaps they will agree with me that it would be undesirable for me to make public the areas in which our work programs are inadequate by reason of my staff shortage. In paragraph 9 of my 1962 report I referred to this when I said:

Examinations have continued to be conducted on a test basis in accordance with past practice, the extent of the tests varying according to the nature of the transactions and the effectiveness of internal controls. The extent to which these test examinations have been limited by recruitment difficulties has become a matter of serious concern. In too many instances staff shortages have resulted in the Audit office being unable to make test examinations of departmental records with sufficient frequency or in sufficient depth to achieve the minimum standard required by accepted auditing practice—or being obliged to curtail its work in other directions.

Subject to these limitations, our examinations were made in accordance with generally accepted auditing standards and continued to include a general review of the accounting procedures and systems of internal control together with such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

The Minister of Finance was most sympathetic and helpful. He said he was in agreement with the case I had made and that I could count on his fullest support. He would naturally wish to discuss it with his colleagues.

The minister wrote to me on the matter on November 16th last and stated that he had made a formal request to the Civil Service Commission for exemption pursuant to section 74 of the Civil Service Act to permit me to do my own recruiting pending amendment to the Financial Administration Act. However, he had been formally advised by the acting chairman that the commission does not support this request. The acting chairman had advised him that in the commission's view the recruiting situation had improved and the commission is "proceeding satisfactorily with the recruitment of auditors to fill present vacancies".

I cannot agree that recruitment is proceeding satisfactorily today in view of the fact that there are at present 27 vacant positions in our approved establishment (17 below the temporary recruitment ceiling) with immediate prospects of filling not more than two or three of these. The results of the most recent competition held by the commission on our behalf do not reflect any improvement so far as we are concerned, notwithstanding the fact that there was a larger than usual number of applicants. The competition was requested on September 20, 1962; it was advertised on October 15, 1962 with November 2, 1962 the closing date for the receipt of applications. The number of applications received totalled 92 but only 25 were deemed sufficiently qualified to be called for oral examination. A number of these did not present themselves, and of those who did, only 4 were rated as successful candidates and their names placed on the eligible list issued on January 15, 1963.

In the staff review memorandum which I prepared for the Civil Service Commission last year and to which I have already referred, we examined at close range the salary levels offered for positions in the office. We showed how, as a result of an independent check carried out with leading commercial auditing firms, the salary levels from the auditor 4 class up to and including the supervisor level were not even competitive with the rates offered for comparable positions in other branches of the public service and crown corporations. This situation is rendering it increasingly difficult to retain competent men and is causing unrest among the staff. As this matter calls for agreement with the treasury board, it is my intention to discuss it with them. It seems reasonable however that I should first endeavour to secure a decision concerning my right to recruit and manage my own staff.

One of the changes I would like to see in the grading of the Auditor General's staff is the inclusion of one for the employment of juniors of the "articled clerk" type, either on a temporary summer work or permanent basis, whose service with the office would be recognized by the provincial institutes of chartered accountants so that it would count toward their obtaining their degrees in these institutes. Such recognition has never been extended to the Auditor General of Canada (although it is enjoyed by the provincial auditors of several of the provinces) but as a result of discussions I have under way with several of the provincial institutes I would expect to be able to make progress with this in the event that I obtain the right to recruit and manage my own staff.

In giving this summary to the committee, I have quoted from several letters which I exchanged with the former chairman of the Civil Service Commission and with the Minister of Finance. The quotations selected were those which I feel relate to the basic problem, but the letters exchanged also included detailed comments about specific competitions and named individual employees or prospective employees. I would therefore suggest that these letters be not tabled although I am prepared to do so if the committee wishes, particularly if Miss Addison feels that I have been less than fair in my selection of the material I have quoted.

May I say in closing that I hope the same important principle which commended itself to this committee in 1960 and 1961 will again commend itself to you. It is the fact that as the Auditor General is responsible only to parliament, he should not be dependent for the recruitment and management of his own staff on any branch of government which he audits.

Mr. McGEE: My point is directed to the clarification of this question of the chartered accountants institute. I believe this first came up three years ago. Is that correct?

Mr. HENDERSON: I trusted and hoped, Mr. McGee, that at that time I could obtain this recognition.

Mr. McGEE: You seem to be suggesting in your comments that your own right to recruit was somehow related to the successful conclusion of these, not a fact that this is apart from that.

Mr. HENDERSON: No, sir, it has developed that way in my conversation with the presidents and council members of the institute because it seemed reasonable that I follow through and obtain the right to recruit and manage my own staff before returning to the charge to obtain this recognition.

Mr. CARON: Mr. Chairman, what I have to say has no reference to you Mr. Henderson nor to your department especially, but I have always been opposed to the idea of giving more power to the deputy heads because in some departments we have seen injustice which was due to the fact that the deputy had too much power and the commission not quite enough.

So I believe that in 1960 or 1961—I was not a member of the committee and I would have been opposed to the idea—they did give you more power to choose your own staff. Do you believe that the main difficulty is the salary, civil service delays, or the austerity program at the present time.

Mr. HENDERSON: They are all part of the package. Salary is quite important, as I have said, from my auditor 4 grade up. In respect of grades under auditor 4 I will say quite frankly—this was a year ago—we found those to be quite competitive with the private firms. However, the procedural delays which I have outlined render it very difficult to keep a man dangling; you are unable to bring him in.

Mr. CARON: Well, I am quite aware of the fact it is hard to get men, because I have tried to get some very competent persons who are presently working in offices of chartered accountants.

Mr. HENDERSON: I am sorry. I did not hear you.

Mr. CARON: I have been trying to induce persons to apply for positions. These are very competent persons who are working at the present time in chartered accountants offices. None of them would accept the salary of \$4,680 to work for the government when they can make \$7,000 or \$8,000 somewhere else. In my opinion this should be the main reason why you have the difficulty. It is not the fact that the civil service may have some delays, because even with that you are still short about 29 or 30.

Mr. HENDERSON: Twenty-seven.

Mr. CARON: Do you not think this is the main reason why you are short?

Mr. HENDERSON: No. Salary is a very important reason; it is one that I propose to explore at some considerable length with the treasury board. I have already had some discussion with them and I would have liked to have some discussion about it with the civil service commission. If it would be helpful, we have a brief outlining the nature of the recruitment difficulties and delays.

Mr. CARON: I would like to have that.

Mr. HENDERSON: May I ask Mr. Stevenson—

The CHAIRMAN: Are you filing this?

Mr. HENDERSON: We would be glad to.

Mr. IAN STEVENSON (*Assistant Auditor General, Auditor General's Office*):

We believe that the failure of the civil service commission, despite the best efforts of its officers, to recruit sufficient employees to fill our vacant positions, has been due in large part to the following weaknesses in the commission's recruitment system as applied to the audit office:

1. After the commission has been requested to hold a competition and, in turn: the competition is advertised, applications are received and given preliminary screening, candidates are interviewed at various centres throughout the country, and eligible lists are established, such a long time elapses (usually from three to six months) that when offers of appointment are finally made by the commission, the candidates—especially those standing near the top of the eligible list—are frequently found to have become employed elsewhere.
2. The commission's selection officer assigned to serve the audit office, having other units in the public service which he also serves, may have one or more competitions in progress for other units at the time that we request a competition to be held, with unavoidable delay thereby resulting.
3. Employees taken on strength occasionally prove to be unsatisfactory and have to be released in circumstances where, had references been

sought and obtained from former employers, their names would probably not have been placed on the eligible list.

4. From time to time we have visits from suitably qualified persons stating that they would like to join the audit office staff. Under existing procedures, all that we can do in such a case is to suggest that the person apply when next a competition is advertised on our behalf by the commission but, ordinarily, by the time this occurs he has already obtained employment elsewhere.
5. Finally, although all the officers assigned by the civil service commission to attend to audit office staff problems have been capable and co-operative, there has been a lack of continuity of effort. Thus, during the past five years, seven different civil service commission officers have been assigned to deal with recruitment competitions held by the commission on our behalf.

Mr. CARON: Do you not establish the standard you need before you ask the commission to call for a competition?

Mr. STEVENSON: Yes, sir. This standard is agreed with the civil service commission. Qualifications are decided upon for each grade.

Mr. CARON: Do you think that a salary of \$4,680 would induce a person with good experience in the office of a chartered accountant to accept such a position?

Mr. STEVENSON: Well, of course, sir, this is the auditor 1 grade, our lowest recruiting grade. We would not expect a chartered accountant or a qualified accountant to apply. This competition is aimed principally at the university graduate, perhaps with a bachelor of commerce degree or, alternatively, the high school graduate with a number of years experience in the office of a professional accountant. In considering whether the salary is adequate, we must remember that the auditor 1 grade is in the same salary level as are assessors 1 in the taxation division and treasury auditor 1 in the office of the comptroller of the treasury.

Mr. CARON: Do you think that among those who have a bachelor of commerce degree or a high school education plus four to six years experience you would find many who would apply for those positions?

Mr. STEVENSON: I think I saw recently in the press that the going rate for recently graduated bachelors of commerce going into industry was \$385 a month, which I think corresponds to our level, or almost to our level, and \$315 a month was given as the rate for those going into a professional auditing office.

Mr. CARON: I know a young man who graduated last year from Western university in commerce and business administration. He tells me that before the last year was over they were all called upon by private companies to go with them at higher salaries than that, every one of them. So, if they can go to a private company for a better salary than that, I do not think they would come to work for the government.

Mr. STEVENSON: I think this undoubtedly must have a bearing on the matter since, as the Auditor General has said, we have very few qualified applicants applying for our competitions. Therefore, this would indicate that the salary level is too low. As we have mentioned, this is only one factor in our problem. There are these other factors.

Mr. CARON: The main factor appears to be the civil service delays.

Mr. HENDERSON: Mr. Caron, may I make this observation. This auditor 1 is our lowest grade in the office; it is, so to speak, our junior. The private firms by and large are not encountering recruitment difficulties. I am basing this on information in respect of firms like Price Waterhouse and Company and McDonald, Currie & Co., and firms like that. I might further add that they

complain that the salary we are offering for auditor 1 is higher than they are prepared to pay for their juniors, and yet they do not have any recruitment problems; they have told me that.

Mr. SMITH (*Simcoe North*): There are other reasons. Mr. Henderson is over-simplifying the problem of recruitment. In these large auditing firms I think there are very wide opportunities.

Mr. HENDERSON: As you know, Mr. Smith, the junior you take into an accounting office today is the senior of tomorrow, and I like to feel we are building for tomorrow and are bringing these lads in who will stay with us.

The CHAIRMAN: We have to assume we do not have very much time. I have had handed to me notes explaining the background and development of the audit office approach to its work over the past three years and the status of this work at the present time. I would like to suggest that this be printed as an appendix to today's minutes of proceedings and evidence.

(See appendix A.)

The CHAIRMAN: The second suggestion is that as this may be our last meeting, I think it would be unfair not to have a statement from Miss Addison of the civil service commission. We have heard a report from one side. At least let us get as much evidence in as possible.

Mr. CARON: This is my last question. Do you not think there is a better remuneration opportunity with a private firm than with the government?

Mr. HENDERSON: As they move up, yes. As they move up beyond our auditor 4 the remuneration is considerably better.

Mr. CARON: If he can prove with a private firm that he is a real good man, then he has more chances than with the government.

Mr. HENDERSON: I do not question that, sir.

The CHAIRMAN: Could we have Miss Addison, or whoever is the spokesman? Miss Addison will start off, followed by Mr. Pelletier.

Miss R. E. ADDISON (*Commissioner, Civil Service Commission*): Mr. Chairman, I would like to read a brief statement which we have prepared. I think this answers some of the questions the Auditor General has raised.

The Auditor General, in sections 21 to 23 inclusive of his report for the year ending March 31, 1962, makes reference to "recruitment of audit office staff". The same subject matter was referred to by the Auditor General on pages 22 and 23 of his follow-up report to the standing committee on public accounts on the action taken by departments and other agencies in response to recommendations made by the committee in 1961.

The issue here is whether or not the civil service commission should continue to recruit staff for the Auditor General's office. As is properly indicated in past reports of the public accounts committee, the Auditor General's office can be excluded from the Civil Service Act by parliament. However, this was not done when the present Civil Service Act was passed in 1961 and, as things now stand, the Auditor General's office is subject to the provisions of the Civil Service Act to the same extent as government departments generally.

In the present act, provision is made for exclusion from all or some of the terms of the act by the civil service commission with the approval of the governor in council. This is section 74 of the act which stipulates that such exclusions shall be sought "where the commission decides that it is not practicable nor in the public interest to apply this act or any provision thereof to any position or employee". The commission has decided against such exclusion in this case for reasons set out in correspondence exchanged between the Minister of Finance and the Auditor General on the one hand and the Commission on the other. The commission pointed out at the time that the recruiting

situation was not unduly difficult nor appreciably different from that of a number of departments employing professional staff with qualifications and experience similar to those required by the Auditor General's office, as well as in any number of other fields where shortages exist.

Section 39 of the Civil Service Act states that "the commission may authorize a deputy head to exercise and perform any of the powers or functions of the commission under this act in relation to the selection of candidates for a position". It is important to note that this section refers only to delegation of authority to a department and not to the relinquishing of that legal authority as is contemplated under section 74. Secondly, this delegation can only be effected with regard to "selection" and not to "appointment". Under the present act, as indeed was the case under the former act, the commission has delegated authority to departments to conduct their departmental promotion competitions.

The question of delegation of the recruitment function to departments was and still is under careful study in connection with the recommendations of the Glasco commission Report and, consequently, we have felt that it would be wise to defer any definite decision until other related matters had been cleared. I can say, however, that regardless of whether the Glasco commission Report is implemented in whole or in part, the commission does intend to delegate to a much greater extent than it has in the past.

The Commission is very conscious of the need for qualified personnel to maintain the high degree of effective and efficient service which the Auditor General's office has provided with a relatively small professional staff. There is, however, a strong demand for persons with the professional qualifications and required experience, not only in other government departments but also outside the public service, and the supply has consistently tended to run well below the overall demand.

The Auditor General has, no doubt unwittingly, given certain staff figures which can easily be misinterpreted. For example, he has indicated that on October 31, 1962, he had twenty-nine vacancies on his establishment. This is correct except that the government's staff control programme now in effect precluded the possibility of filling more than three positions at that time. In other words, the austerity program was in effect, and only three positions could be filled at that date.

In the fiscal year ending March 31, 1962, the commission appointed, as additions to the Auditor General's staff 24 employees, 9 of whom were at senior levels. Since April 1, 1962, an additional 20 new recruits have been appointed, one of whom was at a senior level. Owing to the austerity program there were only 3 requisitions for positions to be filled with the commission immediately prior to December 5, 1962. On that date the Auditor General received authority to fill an additional 16 positions.

These are positions for which appointments could be made under the austerity program.

As of January 25, 1963, there were 15 unfilled positions. The civil service commission has made offers of employment for five of these and an additional three offers are now being processed. The remaining vacancies will be filled from current competitions now advertised for auditors 2. In addition, under the university recruiting programme which is just now being completed, we expect to have available a number of qualified candidates for appointment as auditors 1, who will, we hope, be available upon graduation in the spring.

In carrying out the recruitment programme for the office of the Auditor General, commission officers have worked in close collaboration with the staff of that office to meet the requirements of the Auditor General for qualified personnel. We feel that a very sincere effort has been made to overcome difficulties in recruitment and, apart from some problems in connection with

the staffing of the Montreal office, the situation at the present time is reasonably good. Our degree of success is always quite markedly contingent on the good advice and cooperation of the employing department as well as on the supply and demand situation.

Suppose (although this is not a very likely supposition) the Auditor General's office were fully independent of the government (i.e. treasury board) as well as independent of the civil service commission, undoubtedly greater success would be achieved in recruiting if this meant that higher salaries could be paid to professionals required by the Auditor General. However, the same type of professional person is required by other government departments throughout the service, particularly by the comptroller of the treasury and the Department of National Revenue. By offering higher salaries, the Auditor General's office would be in a superior and unfair competitive position, not only vis-à-vis these other departments and possibly crown agencies but also relative to outside employers using similar talent. Furthermore, this would be contrary to the government's pay policy which is essentially to pay salaries commensurate with those paid by outside employers.

If the Auditor General undertakes his own recruitment and selection, it is not unlikely that the time consumed in the process would be as great, if not greater than that taken by the commission, since he has neither the professional selection staff nor the facilities to do the job. A least this would seem to be borne out by the fact that a review of the recruitment competitions undertaken in 1962 by the commission for the Auditor General from outside the service took very little if any more time than the internal promotion competitions conducted by the Auditor General within his own establishment during that same period. Special staff could, of course, be set up in the Auditor General's office but this would mean, to a certain extent, duplication of effort since recruitment of persons with similar qualifications would have to be made for other departments, and therefore added expense.

In conclusion, I need hardly assure the committee that as long as the commission has the responsibilities now vested in it, it will continue to make every effort to provide the Auditor General with the best possible service to ensure qualified staff to carry out his important functions.

The CHAIRMAN: I wonder if Mr. Pelletier wishes to add anything?

Mr. P. PELLETIER (*Commissioner, Civil Service Commission*): No, Mr. Chairman, I have nothing to add to what Miss Addison has said, but I am prepared to answer any questions.

Mr. CARON: Miss Addison said that they advertised for five positions but they now have only three under consideration. Why is it that you have only three under consideration?

Miss ADDISON: No; I said there were 15 unfilled positions, and we have five offers out and three others which are being processed.

Mr. CARON: You mean that only five applied?

Mr. PELLETIER: No, five offers were made, and in addition there are three more being processed now, making a total of eight out of 15.

Mr. CARON: You do not mean that there are seven to be filled by competitions which are now under way?

Mr. MCGEE: I think there is some discrepancy in the figures with respect to the positions open at the moment.

Miss ADDISON: That is due to the austerity program.

The CHAIRMAN: The freeze is now off?

Mr. PELLETIER: Partially.

Miss ADDISON: Except for these 16 positions, there are still 10 which cannot be filled under the staff control program.

Mr. ASSELIN: Is there an austerity program? We were told there was not.

Mr. BENSON: Speaking as a chartered accountant I would disagree with Mr. Caron. I think it is vitally important that the Auditor General be absolutely independent. He is a representative of parliament, but how can he audit a part of the civil service which is responsible for employing his staff? His independence should be established, and I think his independence is far more important than salaries or anything else. I personally believe—and I hope the committee will agree—that he must at some time in the future, or as soon as it is possible, have independence in recruiting and employing his own staff, because he cannot audit someone else's records if he is responsible to them to provide his staff, and he cannot do that and maintain professional integrity. For example, if I audit your records, and you do not want to have them audited, then I just do not get any staff. You would not hire a staff for me to work. And to continue, I think that salaries are an important factor. There is no doubt about it. Is it not true? I examined these salary scales you established for higher levels of people with 10 years experience, and having qualified training, and I came to the conclusion that the only way a chartered accountant could earn less money was to become a member of parliament. Has there been any suggestion made recently with respect to a revision of these salary scales?

Mr. HENDERSON: All the grades from auditor 1 up to supervisors were increased in one of the class increases on December 5, when they made it retroactive to October, 1961. For example, the top rate in my auditor 1 was \$5,160, and that was increased to \$5,400, in other words, by \$340 a year, on December 5, and with somewhat similar increases all the way up the list.

Again, and I repeat, this is adequate, in my opinion, for auditor 1 to 3, but inadequate for auditors 4, 5 and 6 and up to supervisors.

Mr. BENSON: If you were given authority to maintain and recruit your own staff, do you think you could fill the vacancies you have very quickly?

Mr. HENDERSON: Yes, sir.

Mr. CARON: But the civil service commission does not seem to see it the same way.

Mr. HENDERSON: Because of assistance proffered to me by people in the accounting profession generally, staff managers of firms—I have their names—have indicated that they would like to send along men for me to have a chat with but I declined to see them because I did not have the final say in the negotiations.

Mr. CARON: You would not apply to the civil service commission?

Mr. HENDERSON: I am afraid that I would be making dates that I could not keep. For example, I would like to have these men start in say two weeks time and get to work making a salary revision possibly in a matter of three months, with certain flexibility. But there is no such choosing of a person in their system.

Mr. MCGEE: There were two statements made by Miss Addison: one that you did not have the time or the ability to recruit the necessary staff. This was supported by a letter, or a statement that in your promotion competitions, your time for most of your promotion competitions within your own environment took nearly as long as it took the civil service commission to recruit. What is your reply?

Mr. HENDERSON: Miss Addison is completely correct as to the second point, on promotion competitions. At the present time Mr. Stevenson, Mr. Cooke and I devote considerable time to staff problems, memoranda and letters

within the office, and I have calculated it—and it might not be inappropriate for me to mention, being an accountant, that I recorded the cost of the time it took us to attend to all this and carry it out—I find that over a period of 12 months, with all the comings and goings, that the cost of our time, with that of our supervisors, totalled up to \$20,000 per annum which, to me as an auditor, is money I would prefer to see devoted to higher accounting research, such as staff training, electronic data processing and other basic matters.

However, as to the ability to recruit, to me it is a problem I would assign to one man on my staff, whose job it would be to see that each staff member is properly rotated and given opportunity to learn about things. You see, you want to move them around on different audits, to gain an orderly experience. Such a staff man would do that. He would also be interviewing prospective employees. But my supervisors and I would make the final approvals, based on ability. To me that would be the function, and it is the way in which large accounting firms operate: that is, they always have a competent staff man who looks after their needs. I submit it would be a lot cheaper than the figure I mentioned.

Mr. McGEE: You say there is no doubt in your mind that you have the ability to carry out this recruiting program?

Mr. HENDERSON: I have done it before and I would not anticipate any problem here.

Mr. HALES: Mr. Chairman, I would like to ask Mr. Henderson one question and then I will make an observation.

Mr. Henderson, did the Glassco commission examine your operations?

Mr. HENDERSON: No. As I stated in my follow-up memorandum, the Glassco commission did not examine my office because I am not a part of the executive. Therefore, there is very little reference to my office and no reference to this problem in their report. However, they did pass the observation that if a number of their recommendations under financial management were implemented the work of my office would be—and I think the words they used were “greatly enhanced”. But that is something in the future and upon which I hesitate to comment.

Mr. HALES: As you know, this subject has been before the committee for two or three years at least. We have given quite a bit of study to the problem which the Auditor General is having in recruiting his staff. I must agree with a member of this committee, namely Mr. Benson, that it always has been my view that the Auditor General's audit staff should work independently of all government departments. I would compare it to a large business concern; it would have an internal audit, but when it comes to final audit at the end of the year they hire outside auditors to come and conduct that audit. I think government business is not unlike that situation. And I feel we should have people auditing government departments who are not members of the civil service or come under the terms of those people who hire them. I am substantiating my thinking with the apparent delay of the civil service commission in hiring these people, as I think Mr. Henderson mentioned to us. I understood it took from September 20 to January 15, a period of four months, before the civil service commission was able to bring a competition to an end. I think a period from three to six months was mentioned here. I do not think a business operation could wait three to six months to hire staff because things are going to go undone and will not be done properly in this way.

I think that this committee would be well advised to recommend to parliament an amendment to section 65(4) of the Financial Administration Act. In my estimation, that is what it would boil down to.

Mr. McCLEAVE: Mr. Chairman, could we ask the views of Miss Addison and Mr. Pelletier on whether they disagree violently with the recommendation of the public accounts committee on a previous occasion. Would that be a fair question?

The CHAIRMAN: There is no time like the present.

Mr. McCLEAVE: Do you or do you not object to the suggestion of the Auditor General? I would like to know the answer to that question.

Mr. PELLETIER: Yes, I would be glad to answer that question. In the first place, it should be made clear that what we are doing, essentially, is to apply the legislation as it has been passed by parliament. I know that is not the brunt of your question but I would like to start with that. We are applying the legislation as laid down by parliament. In that legislation it is made perfectly clear that we can exempt in part or in whole certain bodies, and we could under the act, with the approval of the governor in council, exclude the Auditor General's office completely from the terms of the Civil Service Act, in which event they would be on their own, subject to direction only by the treasury board and so on.

You have asked us our opinion whether that should be or should not be. That is a large question and I think one more properly directed to this committee or in parliament itself. But as administrators of the whole recruiting business for government departments, it seems to us there are a number of factors which should be kept in mind.

There was a comment made a moment ago about the total independence of the Auditor General because the Auditor General audits our books. This is quite so. I think that to suggest that we would refrain from appointing somebody to the Auditor General's office because he subsequently would audit our books is, if I may say so with respect, slightly far fetched.

In so far as recruiting is concerned, we must not forget that auditors, accountants and so on are required in many offices, particularly in the offices of the comptroller of the treasury as well as in the office of the previous witness, namely the income tax department, on a much larger scale.

It has been recognized by the Glassco commission that in the government service, when it is a question of functional recruitment cutting across several departments, it is more effective, more economical and more knowledgeable to have the recruiting done by some central agency which has its finger on the pulse of the market at all times. I would not want to suggest the Auditor General has not his finger on the accounting pulse; he has as much, or possibly more so, than we have. We are talking in general terms of functional recruitment.

Then there is the question of rates of pay. The Auditor General, in his own statement said that under the present system there was a lack of flexibility in meeting market conditions. I think those were his words. Well, if that means lack of flexibility in meeting supply and demand in terms of money, he is quite right; but there is a government policy which is to pay salaries commensurate with those being paid outside.

Salaries of that office have been reviewed by treasury board not long ago on the recommendation of the civil service commission after a study of salaries paid outside, from the top to the bottom, from grade 6 to grade 1, and in so far as it has been humanly possible to ascertain, keeping in mind regional differences and everything else, the salaries that have been recommended by the commission and approved by the government are, or were a few months ago, generally commensurate with what is being paid outside. At this time the civil service commission as a commission really has no view on whether the audit offices should be completely exempt or not, but we think the committee should be aware of the disadvantages of so exempting the Auditor General's office.

The CHAIRMAN: May I ask one question—and I think I am entitled to at least one question a year. Could you give us some examples of these exceptions to the general rule of a central recruiting agency?

Mr. PELLETIER: Did you say exceptions?

The CHAIRMAN: Well, you are assimilating the Auditor General's department to one of the regular departments. But it has been made clear; his department has a special status. What other agencies or departments are exempt from your control?

Mr. PELLETIER: Some are exempt in part and some are exempt in total.

The CHAIRMAN: Would you give some examples?

Mr. PELLETIER: I do not know of any departments that we have exempted in toto.

The CHAIRMAN: What about Eldorado?

Mr. PELLETIER: It was set up by legislation.

The CHAIRMAN: But we are discussing the principle. Why should they be exempt? What about the national film board?

Mr. PELLETIER: I think that question should be addressed to the elected representatives.

Mr. HELLYER: Mr. Chairman, I was next on your list. The point I wish to make is right on this same matter. I do not think the distinction here is between the crown corporations and the government but between departments of government and officers of parliament, and this is the principle that we have to think about. Whether, in fact, there is a distinction now I am not impressed by the need to have government departments competing with the Auditor General's office for staff. In most government departments they have at least one and a half persons to do the work of every one, if they would only organize themselves properly. I am much more impressed with the needs of the Auditor General so that he can check up on them to see that they are, in fact, doing their work properly.

But the principle is whether staff of an official of parliament is to be treated differently from a deputy head of a government department, for instance, which is in fact under the direct supervision of the executive and certain governmental functions. Are there any exemptions of officers of parliament. For example, is the chief electoral officer exempt from the civil service commission?

Mr. PELLETIER: No.

Mr. HELLYER: Do you recruit his staff?

Miss ADDISON: We recruit his staff.

Mr. HELLYER: Are there any officers of parliament who are, in fact exempt?

Miss ADDISON: The House of Commons and the Senate staffs.

The CHAIRMAN: And the library.

Mr. PELLETIER: In answer to Mr. Hellyer's question, the Auditor General is in quite a unique position. Except for the civil service commission, there are very few if any bodies that are directly responsible to parliament, apart, of course, from the judiciary. I do not know of any others offhand.

Mr. HELLYER: So from a standpoint of principle at least, we would be entitled to make a distinction between the Auditor General and his staff and other governmental bodies which are under the control of the executive?

Miss ADDISON: If you put the civil service commission in as well.

Mr. PELLETIER: We recruit our own staff but in accordance with the provisions of the Civil Service Act.

Mr. HELLYER: But as a matter of convenience?

Mr. PELLETIER: Oh, no. We cannot hire and fire at will; we abide strictly by the terms of the Civil Service Act in much the same manner as the Auditor General.

Mr. HELLYER: I am in general sympathy with the problem Mr. Caron has raised. I think the Auditor General and his staff are exceptional in that they have a most important function to undertake, which is safeguarding and reporting to parliament on the whole broad spectrum of government administration with respect to the moneys that parliament has voted, and it is really a tremendous responsibility. I am appalled to hear that this austerity program would restrict the approved establishment to the immediate procurement of three people. I cannot understand this. It is incomprehensible to me, and yet I appreciate this must be the fact. And I do not think that parliament would want the executive to have the authority to cut off any additional staff which were urgently required to do the business of parliament because of its own financial situation at the particular time.

I think we should give very serious consideration to following the previous recommendations of this committee and treat the Auditor General and his staff as a special case. They are our servants who really have and hold in trust the responsibility that we have of checking up on how, in fact, the moneys approved by parliament have been administered by the executive branch of parliament, and it does not seem to me to be true that they should be treated the same way as other government departments.

Mr. MUIR (*Lisgar*): I am concerned with the inconsistencies of salaries as between government departments. I know the easy thing to do would be to raise the salaries of everybody working for the government. However, I understood the Auditor General to say that in order to maintain his staff higher salaries would be possibly necessary or, at least, desirable, and I am wondering what he would say about the inconsistencies in salaries and the importance of keeping the salaries consistent for the particular grades as between the departments of government. In civil terms, I mean that if you raise the salaries of your people in your department what about the salaries of people in the Department of Finance and so on. This is one of the things that I do not think we have considered really.

Mr. HENDERSON: I am glad you brought that up because I think Miss Addison made a similar reference in her discussion.

May I point out page 7 of my report where I quoted the recommendation of this committee previously, wherein it contemplated that I would do the recruiting—and I am quoting:

Under a plan of organization necessary for the proper functioning of his office and the establishment of rates of compensation for each class of position, having regard to the rates of compensation and conditions of employment for comparable positions in other branches of the public service and outside the public service.

Obviously it would be undesirable on the government scene generally were I to have a salary scale greater than that which is employed by other departments.

Rather like the National Film Board, which operates along those lines, I would be called upon not to do that, it is true. I am not for a moment disagreeing with the treasury board's authority as to the rates that should be paid. Nor for one moment would I enter upon this recruiting assignment with the idea of simply using public funds to get people away from departments or for anything like that. I have to have a scale that will stand up, and I would hope my staff would work closely with the civil service commission and departments of government in administering a fair scale.

Mr. MUIR (*Lisgar*): In other words you would be willing to accept the civil service pay scale?

Mr. HENDERSON: It would be a pay scale established with the officials of the treasury board, and that has been inherent in your recommendation each year. I am not complaining about that situation.

The CHAIRMAN: The recommendation does include the words "with the approval of the treasury board".

Mr. HENDERSON: Yes, those words are included in the proceedings of this committee.

It would be easier for me, I would admit, if I were completely free, but in view of the importance of consistency, I think they have every right to expect me to conform to a fair scale. I hope I have made myself clear to you, Mr. Muir.

Mr. McGEE: You are looking for an elite group in your office?

Mr. HENDERSON: That is right, sir. I am most anxious to get the best possible type of junior in my office, who will make this work their careers and stay with us.

The CHAIRMAN: Miss Addison, if the Minister of Finance is sympathetic toward the Auditor General's request as expressed this morning and your commission is not, would you mind telling us one or two basic reasons why you are not?

Miss ADDISON: I think we feel that if the Auditor General's office is to be entirely separate this should be done by parliament and not under the Civil Service Act or by order in council. We do not feel that section 74 was intended for this purpose and if the Auditor General's office is to be taken out from under the commission it should be done by parliament.

The CHAIRMAN: That would, of course, take perhaps two or three years. What should happen in the interval?

Miss ADDISON: I think this could be handled in a number of ways.

The CHAIRMAN: Is there some means of compromise between these two points of views by which you could delegate this function until the legislation was amended?

Miss ADDISON: If we were to just delegate selection, then the Auditor General would have to follow the general rules that are laid down. He would then make the contacts himself with persons interested and conduct recruitment in much the same way as he now carries out his promotion competitions.

Mr. McGEE: How far could you go in this direction under the present situation if it was your desire to do so? If you were willing to go along with the request of the Auditor General, how far could you go without having to place the matter before parliament?

Mr. PELLETIER: I think it should be made clear that there a difference between delegation and exclusion. With regard to the first, we can delegate most of our powers under section 39 of the Civil Service Act to the Auditor General except appointment. As far as the physical aspect of putting someone on the job is concerned, he can act as our agent under the act. We would still be responsible however and if we are responsible, then it is obvious we would want to see to it that reasonable standards were followed because the ultimate responsibility rests upon us.

Mr. McGEE: You report to us as members of parliament?

Mr. PELLETIER: That is right. Under section 74, we can exclude with the approval of the governor in council. Such an exclusion as has been suggested

would mean that the Auditor General's office would be completely outside the Civil Service Act, but we are restricted by these words in the act which say:

In any case where the commission decides that it is not practicable nor in the public interest to apply this act...

It is incumbent upon us by this act of parliament to decide whether an exclusion is in the public interest or not.

For some of the other reasons I mentioned before it seems to us that in view of the fact these people are employed throughout the service, and in view of the fact we have the machinery to do it, and in view of the fact that we can do an over-all job more efficiently than if it is split up between 15 different recruiting agencies, we feel it would not be in the public interest so to do under the terms of the act.

Mr. MCGEE: Perhaps the question I intended to ask is unfair and I apologize if you feel that it is, but if you were inclined toward the view, as apparently members of this committee are, with possible exceptions, taken by the Auditor General, you could go a great deal further under the present structure to accommodate his and presumably our wishes in this matter?

Mr. PELLETIER: The answer to that question is yes.

MISS ADDISON: Under section 39 this would involve delegation of selection.

Mr. MCGEE: The reason you have not taken these steps is that you are disinclined to do so; is that right?

MISS ADDISON: The last request was not of that kind. The last request from Mr. Nowlan was for an exclusion under section 74.

THE CHAIRMAN: Gentlemen, I should like to read you the actual law in this regard without making any comment. I will read from the Civil Service Act, paragraph 74 under the heading "Exclusions". It states as follows:

In any case where the commission decides that it is not practicable nor in the public interest to apply this act or any provision thereof to any position or employee, the commission may, with the approval of the governor in council, exclude such position or employee in whole or in part from the operation of this act; and the commission may, with the approval of the governor in council, re-apply any of the provisions of this act to any position or employee so excluded.

MISS ADDISON: Paragraph 39 is the one we have been discussing.

THE CHAIRMAN: Yes, but under this paragraph you have that power.

MISS ADDISON: If it is not practicable nor in the public interest, they could be excluded by order in council on the recommendation of the Commission.

Mr. MCGEE: This whole question depends upon your evaluation of public interest. Again we are getting into a difficult area and I appreciate the difficulties involved in this situation, but would that judgment on your part be altered in any way as a result of a specific recommendation of this committee?

MISS ADDISON: I really think in all sincerity that "in the public interest" does not include the taking over of the functions of parliament, because I still think if there is to be total exclusion it should be done by parliament. We have recruiting problems with other departments that are very similar to those with the Auditor General. The number of vacancies that the Auditor General has authority to fill, I am sure we will manage to fill in a reasonable time. We cannot recommend exemption of the basis of practicability at this time.

The CHAIRMAN: For the past two years this committee has recommended that this action be taken, yet the civil service commission has not agreed with the recommendation. You have the power but you do not agree with the recommendation, and that is your privilege.

Miss ADDISON: I think the action which you have recommended is action under paragraph 39.

The CHAIRMAN: No, the action we recommend should be taken under paragraph 74.

Mr. McGEE: The difficulty arises as a result of judgment. I put it to you again that if this committee were to recommend such action and you in fact change your inclination in relation to your judgment as to public interest, what would be your reactions? As I said, I acknowledge completely your right to disagree and I acknowledge your right to hold the views you do hold, but I am asking you to comment upon a recommendation made by this committee which does not happen to reflect your view. What would your reactions be to such a recommendation?

Mr. PELLETIER: I would not for a moment want this committee to misinterpret the motives of the civil service commission. The motives of this commission are of the purest. This committee has recommended that certain things be done in two reports, and I stand subject to correction.

The CHAIRMAN: Yes, this recommendation was made in two reports.

Mr. PELLETIER: On the other hand the new Civil Service Act became law on April 1, 1962, and parliament at that time saw fit to have the Auditor General's office within the terms of the Civil Service Act. Parliament has stipulated that the commission may do this if it is not practical to do otherwise, or if it is not in the public interest. It seems clear to us that since the Auditor General's office was included with all the others as late as little more than a year ago, we should do what parliament intended us to do.

The CHAIRMAN: When you make that statement do you have in mind what the Minister of Finance has said recently?

Mr. CARON: The Minister of Finance is not parliament.

Mr. BENSON: You refer to the words "practicable or in the public interest". It may be practicable for you to recruit staff for the Auditor General. I would suggest that the recommendation made by this committee has been made in the interest of the public. We represent the public here, and we have recommended that the Auditor General's staff be separate. We are in fact saying to you that in our opinion it is in the public interest to have the Auditor General's staff removed from the jurisdiction of the Civil Service Act.

Mr. ASSELIN: Mr. Chairman, I would go one step further than that and say that up to the present time it appears that it has not been practical in view of the interminable delays that have occurred.

Mr. CARON: I have all the sympathy in the world for the Auditor General's problems. I am opposed to the recommendation because of the possible return to patronage which has been eliminated by the introduction of the civil service commission. There is a recommendation in the Glasco commission report that all individuals receiving salaries over \$5,200 should be chosen by the heads of the different departments. I would suggest that the adoption of any such recommendation would lead to the possible return of appointment by patronage, and this is the reason I oppose any such recommendation. If I were assured that only the Auditor General's department would be placed in this category, then I would not oppose this recommendation as strongly, but I think that there is a tendency to move in the direction of patronage. We are all aware of this situation in the past and realize that the civil service commission was created to eliminate or to do away with this situation. I believe we should maintain the Civil Service Act in respect of the choice of employees for government departments.

Mr. McGEE: Mr. Chairman, I should like to take the strongest exception to the suggestion made by the hon. member. On more than one occasion I have urged members to leave their political drums out in the hall.

Mr. CARON: I did not bring in any political position in this regard.

Mr. MCGEE: Heavens no!

Having regard to the effective operation of the public accounts committee, which I regard as one of the most serious responsibilities I have as a member of parliament, any suggestion, as has been made by Mr. Caron, regarding the strength or effectiveness of a department of government being threatened by patronage, I regard as being irrelevant.

Mr. CARON: I do not see any irrelevancy in that regard at all. If we decided that there is need for the Auditor General's office to be separated and we accept that, then other departments may ask later to be given the same privilege. That is the area in which there is danger.

Mr. BENSON: Mr. Caron, there is no one in the same position as the Auditor General. We consider his position as something unique. If someone else asked for the same action I am sure the members of this committee would take a completely different view.

Mr. CARON: I suggested that I would accept such a suggestion if I could be assured that requests of this type would end there.

Mr. BENSON: I suggest that we would deal with any similar requests in a different manner.

Mr. MCGEE: Miss Addison, do I take your point of view to be that under the statute parliament has given you the right to make a decision or matter of judgment in this regard and you have made your decision, and your point of view is that if parliament or this committee does not agree with your position, then it can take the proper steps to change the situation? Do you take the position that you have looked over the entire spectrum of the Civil Service Act and have formed this decision?

Miss ADDISON: I must say that in my opinion I do not think section 74 was intended to be used to take a whole department out from under the Civil Service Act. I have always felt that such a step was the responsibility of parliament itself. Such action is usually taken by or through an act of parliament, and this is the basis upon which we made our judgment.

Mr. FORBES: Is it fair to say that the Civil Service Act was set up to engage employees for various government departments, but that up until the present time the commission has been unable to recruit an efficient staff as required by the Auditor General's department?

The CHAIRMAN: That is correct.

Miss ADDISON: I take objection to that.

Mr. PELLETIER: That statement requires some qualification.

Miss ADDISON: I object to that statement, if I may.

The CHAIRMAN: Miss Addison, would you mind answering one question? Was it not your own chairman, Judge Hughes who suggested that 74 be applied to the question?

Miss ADDISON: I am reasonably sure he was talking about 39. I cannot be absolutely sure, but it was my understanding that his remarks applied to 39. Under the old act we had the same kind of exemption as we now have under 74. As the section which is new under the new act is section 39, which was the right to select, I feel this is the one Mr. Hughes was referring to.

Mr. PELLETIER: In his letter of June 20 the then chairman, Mr. Hughes, said that in his judgment section 74 did not apply. He was referring to 39.

The point made a moment ago by Miss Addison is very important. It seems clear that it was not the intention of parliament that section 74 should be made to apply to a whole government department but only to individuals or groups of individuals. In so far as recruiting difficulties for the Auditor General

are concerned I can assure you—and we can produce all kinds of evidence—that not only are they no more difficult than elsewhere but they are less difficult. I am talking from memory but the Comptroller of the treasury's office, for example, which employs very much the same kind of talent, is relatively shorter of staff than the Auditor General's office. As a matter of fact, in the top two or three grades in the latter's office there is only one vacancy. So the actual practical difficulties do not exist any more there than they do elsewhere, and indeed in certain cases less acutely.

Mr. FORBES: If the civil service can get you one or two classes of auditors would you be happy to have them, Mr. Henderson?

Mr. HENDERSON: Yes, because, as I stated in my testimony, I am 27 people short. I just want to have the tools.

Mr. FORBES: The reason you are short is due to some government regulations?

Mr. HENDERSON: For all the reasons that have been brought out in the evidence.

The CHAIRMAN: Are there any other questions? If not, I have another suggestion. I am full of suggestions today.

Mr. COWAN: When you suggested the institute of chartered accountants will not give your students credit for service in your department, you must realize that if they gave your students credit it makes it harder for them to get students in their own class.

Mr. HENDERSON: I had discussions with them and, as I said, the discussions were suspended temporarily.

Mr. COWAN: There is nothing vicious in their attitude, you understand.

The CHAIRMAN: I would like your attention. Two questions were referred by the House of Commons to us. We had evidence on both questions. If it is possible, I would like to call a meeting of the steering committee in half an hour and a meeting of the general committee for two o'clock so as to submit an interim report to the house in view of the urgency of the matter. What would you think of that?

Mr. MCGEE: Excellent.

The CHAIRMAN: At least we would have done something this year in case certain developments take place.

Mr. CARON: Will the meeting be in the same room?

The CHAIRMAN: My last comment was a non-political comment. Would the steering committee meet at 12:30 in my office?

APPENDIX "A"

Notes explaining the Background and Development
of the Audit Office Approach to Its Work over
the Past Three Years and the Status of This
Work at the Present Time

It might be useful if I briefly reviewed the way in which the Audit Office is carrying out its work at the present time. At the risk of repeating some of the things I have said on this subject in my last three annual Reports, I feel that the Members of the Committee today are entitled to what could be called a progress report, if only for the reason that in its final report to the House of Commons on July 1, 1961 the Public Accounts Committee saw fit to commend the approach we are seeking to bring to our work.

Shortly after my appointment on March 1, 1960 as the Auditor General of Canada, the Public Accounts Committee called its meetings in that year and I appeared before the Committee for the first time on March 23, 1960. In an opening statement I made to the Committee on that date, I had the following things to say by way of indicating my concept of the important duty I had assumed. These are to be found on page 11 of the Minutes of Proceedings and Evidence of the Standing Committee on Public Accounts for its meeting held on March 23, 1960.

I am conscious that the operations of the government of Canada through its various departments, agencies and Crown corporations in plain terms of receipts and expenditures since World War II have reached unprecedented heights. In fact, government has emerged as the biggest business in the country.

Consequently, I am entering upon my new duties fully aware of the signal responsibility resting on the Auditor General of Canada in his capacity as an officer of Parliament under legislation which enables him to take an independent and objective view of the results of public service operations. I shall be approaching my responsibilities always with the object of understanding and assessing the basic or underlying reasons causing all expenditures of public funds.

We must appreciate I think, that the public service lacks what I might loosely call the private enterprise or profit incentive without which a private business cannot survive. This acts as an all-powerful incentive to private managements to increase revenues and cut costs. The public service must develop its own incentive yardsticks in administering public funds, not only to ensure that expenditures remain controlled, but that built-in costs, which can so often escape the notice of the best intentioned managements, come under constant scrutiny and revision.

The expenditure of public funds imposes a great responsibility both on the managements administering it and those who are charged with examining the results, like this Committee and myself. Unlike private business, no portion of these expenditures can be charged to any taxable income. It is not a "fifty cent" or "tax" dollar we are working with: it is expenditure of the taxpayer's whole dollar. To my way of thinking, this presents a challenge and responsibility of no mean proportions.

The contribution which the Auditor General of Canada can bring to this task, in my opinion, is similar to the one brought every day by independent auditors to the operations of private corporations. They must

seek to ensure not only that there is adherence to the provisions of the Companies Act and to related legislation, but, in co-operation with management, that there is a positive and constructive appraisal or diagnosis of the operations so that the shareholders may be assured that they are receiving their money's worth. I believe that such an approach is especially appropriate in examining the affairs of our Crown Corporations today. As a result of his detailed knowledge of the operations of his client obtained in the course of his regular audit duties, the auditor can work constructively with management in evaluating not only the system of internal control, organization, methods and procedures and related matters in the corporation, but also the results achieved thereunder, particularly in terms of their cost. Only in this way can the shareholders—in this instance the government of Canada—be assured that maximum efficiency is being achieved at minimum cost.

The Standing Committee on Public Accounts in its Third Report for the year 1960, tabled in the House of Commons on July 20, 1960, after expressing its interest in the comprehensive audit approach I had outlined, included the recommendation which I have taken the occasion to quote this year in my Report to the House of Commons on page 6 under paragraph 22. As you know, the Committee recommended that at the next session of Parliament the proposed special committee on the Civil Service Act should give consideration to authorizing the Auditor General, with the approval of the Treasury Board, to recruit his own staff.

On August 4, 1960 I placed in the hands of the Minister of Finance a 16 page detailed review of the organization of the Audit Office, including the scope of its work. I had prepared this for the purpose of outlining in detail for the benefit of the Minister and his senior officials the reasons behind the approach I was bringing to the work and thereby to justify my need for the extra staff I felt I should have to obtain—an additional 38 employees altogether.

In this memorandum I dealt at some length with the necessity for broadening the scope of our audit programs because, as a result of the close examination I had made of these programs, I felt it to be clearly indicated that the scope of the audit work should be broadened and strengthened having regard to the size and complexity of government operations. I had found evidence that the scope of the work, that is the extent of the coverage, had had to be conditioned in too many instances by the limited staff available. In other words, the staffs on the jobs had had to be spread too thinly across the jobs. I regarded this as serious because it is a dangerous position for any auditing organization to be placed in. Traditionnally, a good professional firm would turn down clients rather than spread itself too thinly across the jobs. I pointed out, however, that this is something which the Office of the Auditor General could not do. He is charged with having a staff at all times sufficiently large to handle the government's accounts effectively. To turn down new audit assignments on the grounds that he had not sufficient staff would, it seemed to me, invite widespread criticism unless he could advance valid reasons why he could not obtain such staff.

In this memorandum I gave specific detailed examples of desirable enlargement of the scope of existing audit programs affecting government departments which my officers and I felt were both important and desirable. I might say at this point that I at once recorded my recognition that work of a pre-auditing nature is carried out by the staff of the Comptroller of the Treasury. His staff numbered some 4650, of which some 230 odd comprised the Audit Services Division largely examining cost records of contractors engaged on government work. The bulk of the Comptroller's staff are the

Treasury officers controlling the expenditures of the various government departments. Their work, however, had never extended and does not extend today to the Crown corporations. The Comptroller's operations were, I pointed out, essentially of an internal control and internal auditing nature within the executive branch of the government. Their competence and effectiveness enabled the Auditor General to place considerable reliance thereon in determining the scope of his own auditing work. However, it remains the responsibility of the Auditor General on behalf of Parliament to determine the extent of his own work and to satisfy himself that the overall system of internal control throughout all government agencies is operating effectively.

I referred in this memorandum to a number of changes I proposed making. For example, rather than concentrating all of the Crown corporations in one of my five branches, we had decided that the audits of these might be split up more evenly so as to enable us to handle the early summer deadline rush more effectively. I also stated that it is important to assign work in an accounting office so as to provide as diversified experience as possible to all staff at all levels. This is particularly important in the Auditor General's Office because year-round auditing work in a large government department could tend to become monotonous and discourage junior personnel from staying with the Office. Competition for suitable staff material at lower levels has always been keen in the accounting profession, and juniors today are quick to rebel if they do not feel they are gaining the widest possible experience. I also outlined why I felt my Audit Supervisors, who had had only one chief assistant each in the past, should in future have at least two chief assistants. I pointed out that the introduction of long form reports would itself require more research and fact-finding that had been the case in the past; consequently a bottle neck could develop in the branches unless an additional chief assistant was provided for each. And finally there existed the need for developing and providing for a steady and continuous training of junior employees, something to which all large commercial accounting firms devote considerable time and effort.

In outlining my audit approach in this way, I stressed the fact that it would call for experience and competence on the part of the senior men in charge as they go about their various assignments and would require more time to be spent on each assignment than had been the case in the past. However, as has been shown in commercial accounting and auditing work, the expenditure of more time and effort in this direction can be productive of beneficial results in terms of saving money. We hoped to achieve our objective in part by the submission of detailed reports to the agency managements on the results of all examinations made by the Office of the Auditor General in future, providing adequate staff was available. I pointed out that these detailed or long form reports would be designed in such a way as to analyze the figures for the year under review for the purpose of assessing the results of the agency's operations in a clear and concise manner. In this way, the agency managements are given the benefit of all of the information obtained by the auditor during the course of his work, together with his recommendations for improvements, particularly as they relate to the system of internal control without which no business can operate efficiently. Naturally the preparation of such reports in this way is time consuming. However, it is the only proven and effective way an auditor has of bringing those things to the attention of management which require remedial action. Moreover, they ensure adequate review of the audit work at senior levels. In our opinion, their preparation and submission were essential to maintaining the most effective relationship between the Auditor General's Office and the government departments and Crown corporations.

I also made the point as clearly as I could that it is not the function or responsibility of the Auditor General to become actively involved in executive and administrative areas or to be an active party to administrative decisions. He must, of course, be able to interpret what the facts and figures disclose if he is to be a constructive critic in the way Parliament expects.

I also made a comparison of the size of the Audit Office staff with the staffs of other agencies. I have already referred to the Audit Services Division of the Comptroller of the Treasury. After dealing with one or two others on the Canadian government scene, I pointed out that the Comptroller and Auditor General of the United Kingdom had a staff of approximately 555 auditors engaged on work comparable to the Canadian Audit Office, except that he was not responsible for auditing the accounts of the nationalized agencies—in other words, Crown corporations. The Comptroller General of the United States has a staff of some 3500 auditors engaged on work directly comparable to the work of the Canadian office. I pointed out that Mr. Campbell's office, known as the General Accounting Office, recruits all of its own staff (within an approved establishment) directly from universities and the professional accounting field. The calibre of his senior staff has always been high, in fact is today the envy of many of the national accounting firms. The quality of its work is widely known and respected in professional and government circles.

I closed my memorandum by a brief reference to the recommendation which the Public Accounts Committee had made in its report to the House of Commons on July 20, 1960. The recommendation stemmed from the basic fact that the Auditor General is responsible only to Parliament and should therefore not be dependent on any of the branches of government for his staff. For this reason his establishment as such should not be compared to the other accounting and internal auditing agencies of the government. I said I did not think his staff ever needed to be large but as the Public Accounts Committee had stated, it should be strong, capable and efficient and equipped to operate in accordance with the high standards of independence and objectivity which I think Parliament had every reason to expect.

The Minister of Finance, Mr. Fleming, was most prompt in giving early consideration to my views and proposals. Within a short time—on September 8, 1960 to be precise—Mr. Stevenson and I had a lengthy meeting with the senior officials of the Department of Finance. They expressed considerable interest in the approach I was proposing and we found the meeting most stimulating and helpful. The upshot was that they recommended I be given approval to recruit up to a ceiling figure of 179 by establishing the 38 extra positions which we agreed should be our target over the next two fiscal years.

Now as you know, the Public Accounts Committee met again through the spring and early summer of 1961, and I should like at this point to quote paragraph 86 of the Committee's Fifth Report, 1961, tabled in the House of Commons on July 1, 1961:

86. The Committee was glad to be informed by the Auditor General that he intends to include in his future Reports to the House of Commons more detailed information covering the financial operations, and related data, of Crown corporations.

You will therefore appreciate that, having started to produce my long form reports on the operations of each of the Crown corporations during 1960 and 1961, I felt I should be in a position to do this in my future Reports to the House of Commons. There had been very considerable interest evidenced by the Committee both in 1960 and 1961 concerning the affairs of Crown corporations and consequently I was glad my new approach would enable me to meet this request. My Report to the House of Commons for the fiscal year ended March 31, 1961, tabled on January 31, 1962, contained considerably more

information than had been available in the past, and as you are aware from my Report for the year ended March 31, 1962, tabled on January 21st of this year, the process has been repeated. I have every reason to believe that the presentation of the data along the lines I have followed has met with the approval of this Committee and Members of the House. You will in any event be considering these during the Committee's current sessions when we can reach this portion of my Reports which are presently before you.

Against this background you will therefore, I think, be interested to know to what extent we have actually been able to give effect to the broadening of the scope of our work during the past two years. I might summarize this by listing the following three areas:

1. We have introduced and issued long form reports to the managements of all Crown corporations and similar agencies with copies to the Ministers responsible. These have met with general approval from the managements, members of their boards of directors and the Ministers concerned, a number of whom have written to me personally to express their appreciation. As I have said, this has enabled us to give a comprehensive summary of their contents in my 1961 and 1962 Reports to the House of Commons.
2. We have been able to make reasonably effective assessments as to the adequacy of the systems of internal financial control existing in these corporations and agencies and to report thereon in the reports. The adequacy of such internal controls is, of course, essential to us as external auditors in determining the extent of the audit programs we apply in our work in these corporations.
3. We have achieved a modest increase in the frequency with which we undertake our audit tests in certain of the government departments. In other words, we cover more ground in greater depth. But as I said in paragraph 9 of my 1962 Report:

In too many instances staff shortages have resulted in the Audit Office being unable to make test examinations of departmental records with sufficient frequency or in sufficient depth to achieve the minimum standard required by accepted auditing practice—or being obliged to curtail its work in other directions.

You may ask at this point why we should have concentrated so heavily on Crown corporations without tackling more in the departments. The reason for this is that the jurisdiction of the Comptroller of the Treasury's officers does not extend to the Crown corporations as it does to governmental departmental operations where the Chief Treasury Officer and his staff perform a pre-audit check of all transactions. The Crown corporations are autonomous bodies free of the Civil Service Commission and of the Comptroller's control. Thus our audit of them is the only outside check to which they are subjected.

You will now be more interested perhaps in noting what we have not as yet been able to do because of the staff shortage which has plagued us for so long:

1. As I have already said, we have not yet been able to increase the scope of our audit programs in the larger departments to what I regard as the minimum standard required by accepted auditing practice today.
2. No long form reports at all have been issued yet covering our work in the government departments.
3. Important extra-curricular jobs which any audit office should be doing regularly have not been started. These include:
 - (a) higher auditing research study;

- (b) electronic data processing techniques as they apply to audit verification;
- (c) statistical sampling techniques;
- (d) regular staff training to help develop our juniors as well as keeping our semi-seniors and seniors up to date on modern auditing techniques.

This then summarizes where we stand today and may have served to explain the reasons for my concern. As a chartered accountant with over 30 years' professional and industrial experience, I do not like to see competent senior men of the type I have in the Audit Office so pressed for time to meet their deadlines. It is the kind of pressure which can result in major points of important audit significance being overlooked.

I would like at this point to make it very clear that, although I describe our approach as a comprehensive audit one, this does not extend to nor is it contemplated that it should embrace what is known as management consulting work, systems and procedures installations, management audits or any similar specialist work. My staff is not trained in this work. We are, however, interested whenever the services of such specialists are engaged by departments or Crown corporations to the extent that the recommendations of such specialists may involve important and significant changes in the internal financial control because of the resultant impact on our own work.

And finally, may I say that in the long tradition of my office, I have no mandate nor have I any wish to interfere in any matters of internal administration within the organizations we audit. Quite naturally, my senior officers and I are consulted from time to time by deputy ministers and by the heads of Crown corporations on matters calculated, in their opinion, to affect their system of internal financial control, or seeking suggestions as to how to improve a situation we may have criticized.

Government
Publications

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Minutes of proceedings and
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